Commission on Financing Kindergarten to Grade 12 Education

Ray Boughen
Commissioner

DECEMBER [illegible]

FINDING *the* BALANCE

Final Report

Commission on
Financing Kindergarten
to Grade 12 Education

Room 420, 2151 Scarth Street
Regina, Canada
S4P 3V7

Honourable Andrew Thomson
Minister of Learning

Honourable Harry Van Mulligen
Minister of Finance

Dear Mr. Thomson and Mr. Van Mulligen:

The Commission on Financing K-12 Education was established by Minister's Order 020/2003-04 on May 1, 2003. I was given a mandate to engage the education community, municipal and provincial governments, and the public in meaningful and informed dialogue on the financing of K-12 education in Saskatchewan.

Over the last eight months the Commission has consulted with people from all walks of life and worked closely with stakeholder groups from across the province. My team and I have reviewed the literature and researched how K-12 education is funded around the world. Throughout this process, the people of Saskatchewan have made it clear that K-12 education is an important priority in this province. We received tremendous support and a wealth of practical advice along the way.

I thank you for the opportunity to work on this important matter. I am pleased to present for your consideration, the Final Report of the Commission on Financing K-12 Education.

Respectfully submitted,

Ray Boughen

Ray Boughen
Commissioner

104-02358/

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A message from the Commissioner

I've long thought that a stable and effective K-12 education system is essential to the future of our province. This is the most valuable investment we can make.

When the Commission began consulting the people of this province, it came as no surprise that they place a great deal of importance on primary and secondary education. As a parent and former teacher I've long thought that a stable and effective K-12 education system is essential to the future of our province. This is the most valuable investment we can make.

Like the people I've spoken with, I believe we can be proud of the education system we've built in this province. We've certainly come a long way since the days of the one-room school house. Programs like School^{PLUS} mean that today's schools have become centres for learning, support and community for children and their families. Today, children who would not have been in the school system ten years ago have the supports they need to make the most of their abilities. Education is a fundamental right for all children, regardless of ability and regardless of where they live. By the same token, Saskatchewan taxpayers should share the costs of that education equitably and fairly.

Over time, several issues related to K-12 education financing have come together to make it more difficult to realize these fundamental beliefs. The most visible symptom of this situation has been escalating education property taxes. In recent years this has become a topic of considerable interest in the news and a frequent subject of conversation in board rooms and around kitchen tables across the province. And, invariably, it was the subject that brought people out to speak with the Commission.

My team and I spent a great deal of time talking with people on all sides of the education financing equation. We heard from taxpayers – farmers and cottage owners in particular – upset about the rising level of school property taxes and difference in school property tax bills from one school division to another. We met with business and real estate groups worried about the province's tax competitiveness. School boards shared their concerns about increasing expectations, difficulties with provincial grants and the complicated system for distributing education dollars. Municipal councils and others told us about the problems created by swings in assessment and the size of the education property tax bill.

Our research gave the Commission an opportunity to test some of the assertions people made. It confirmed that education property taxes in Saskatchewan are the country's highest. It validated the notion that education property taxes are less fair than other common forms of taxation and made it clear that the current system of financing K-12 education does create inequities among school divisions in this province.

Everyone we spoke with recognizes the challenge ahead. The status quo is clearly not an option. No one expects such significant change over night, but everyone does expect change. I know the solutions won't be easy, but I've been heartened by people's willingness to help bring about change. People don't expect the government to go it alone. Most recognize that it will be impossible to find a balance that makes everyone happy. There are many opinions about what should be done. However, everyone agrees that we need to find the balance in a solution that serves the best interests of the province as a whole and, most importantly, the best interests of our students.

Education is a responsibility of government; it is also a necessity. Our government, and indeed our province, could not function without well-educated people. I commend the government of this province for recognizing the need to ensure that it lives up to that responsibility.

It's been a challenging, but rewarding eight months. I've been blessed to work with a small, but mighty group whose talent and commitment brought this report to life. Their work ethic and commitment to the work of the Commission have been tremendous. They have worked many hours researching, writing, and responding to issues and concerns. Through it all, they have remained upbeat and positive. It has been an honour and privilege to work with such a dedicated and professional team. I'd like to thank Executive Director Ken Horsman, Policy Analysts Frances Bast and Raelynn Douglas, Communications Director Kim Herperger, and Office Manager Shannon Lindsay for the significant contributions they made throughout this process.

I'm confident that in its recommendations, the Commission has found the appropriate balance – a way to reduce the over-reliance on property taxes and address the inequities in the financing of K-12 education without increasing the overall demand on Saskatchewan taxpayers and adversely affecting the province's tax competitiveness. Our interim report stimulated much discussion and debate. I hope our final report will lay the groundwork for turning that talk into action.

Ray Boughen

Commissioner

A word of thanks

Throughout this process, hundreds of people have taken time to share their ideas with the Commission. They have attended meetings, developed thoughtful written submissions and provided honest feedback on the Commission's work. Many have closely followed the Commission over the last eight months and pursued an active role in shaping our conclusions and recommendations. Everyone has impressed us with their professionalism and dedication to the education system.

Despite our best efforts to be accessible, we know it wasn't always easy for people to attend our public and one-on-one meetings. Yet they came. Farmers across the province took time out during harvest to attend. Some drove two or three hours to meet the Commission. Business people travelled from as far away as Calgary. Members of some associations came from all corners of the province to meet with the Commission on more than one occasion. This report would not have been possible without this keen involvement.

The staff of a number of government departments in Saskatchewan and across the country have provided valuable support in the form of statistics, background and resource materials. In particular, we appreciate the ongoing support of Executive Council and the departments of Learning; Government Relations and Aboriginal Affairs; Industry and Resources; Agriculture, Food and Rural Revitalization; and Finance.

Over the last eight months, the Commission also worked closely with several key stakeholder groups. Their contribution was vital to the Commission's work and we thank them for their interest and support.

Everyone has impressed us with their professionalism and dedication to the education system.

Executive summary

Kindergarten to grade 12 education in Saskatchewan is funded mainly by local property taxes and provincial grants. Over two or three decades, a number of factors have combined to bring the province's share of the education budget to a low of about 40%.

Appropriately, schools have gradually taken on more and more responsibility for delivering human services. Education property taxes have risen as boards of education try to meet student needs. Changes in tax policies and two recent reassessments have brought swings in assessment and significant property tax increases for many. In rural Saskatchewan, declining enrolments, a dwindling taxpayer base and waning farm incomes have heightened the effect. The business community and others have also raised concerns about high education property taxes and a provincial share of educational expenditures that is the lowest in the country.

Early on, the Commission decided that its report and its recommendations would be based on what we heard in our consultations backed by a strong program of research.

The Commission on Financing Kindergarten to Grade 12 Education was appointed by Saskatchewan's Ministers of Learning and Finance in May 2003 to review this situation and determine how the province should address:

- the appropriate balance between provincial and school board contributions
- the appropriate balance between the use of property tax and other sources of taxation
- fairness and equity in financing education among the existing classes of property taxpayers (agricultural, commercial and residential)
- local fiscal capacity among school divisions and variations in assessment and spending per student, including impacts on access to high quality education for students and equity among taxpayers
- any other issues around the financing of K-12 education that the Commission and the government of Saskatchewan agree should be addressed

Since May, the Commission has consulted with people across the province, held 17 public meetings, reviewed 160 written submissions, and researched how K-12 education is financed around the world. A series of 108 one-on-one meetings with interested groups and individuals gave the Commission a chance to hear more focused and specific input. During the second round of these meetings the Commission sought reaction to its preliminary conclusions and options for change.

The Commission also conducted a public opinion poll, and published an interim report on September 30. Dr. John Allan from the University of Regina was contracted to provide an assessment of the relative fairness of the major taxes in Saskatchewan. All submissions and Commission documents are available on our Web site at www.cfe.gov.sk.ca

Throughout the process we worked closely with key stakeholder groups including local government associations, the agricultural and business community, labour and professional groups, and many others. The challenge of meeting everyone's expectations was truly daunting, but we believe our recommendations will provide for a system of financing K-12 education that balances the interests of students and taxpayers.

The final report provides a synopsis of what we heard, what we found, what we concluded, the options we considered, our recommendations and our assessment of their impact on how the K-12 education system is financed.

What we heard

The people of Saskatchewan are proud of their education system and they are committed to paying their fair share to ensure the future of this province remains strong. However, during our consultations we encountered a number of views about how K-12 education is currently financed. As with our *Interim Report*, the final report provides a summary of what we heard and an update on the results of our research into each of the assertions made by those we consulted. The assertions are summarized by the following eight points of view:

1. Education property taxes are too high.
2. Property taxes are unfair.
3. The province should contribute more to the cost of education.
4. The education financing system creates inequities among school divisions.
5. The property tax and assessment systems are not working.
6. School board autonomy is an important issue.
7. The Foundation Operating Grant is not working.
8. Expenditures need to be examined.

Although these are the common assertions we heard, it is important to note that not everyone agreed on these points nor do they represent every comment we heard. However, they do represent the majority of positions people shared with us.

Our fundamental beliefs, findings and conclusions

The overarching concern for the Commission has been financing K-12 education in a manner that is fair and equitable to all students regardless of where they live. Our student population is spread all over this province and enrolments continue to dwindle in cities and rural areas alike. Knowing this, we have focused our attention on ensuring financing arrangements enable students to receive the best possible education we can deliver.

The Commission has formed the following fundamental beliefs based on our research and consultations:

- Education is a social benefit and everyone should pay.
- Education is primarily a provincial responsibility.
- Education financing should be equitable.
- An increase in overall taxation is not an option.

Early on, the Commission decided that its report and its recommendations would be based on what we heard in our consultations backed by a strong foundation of research. Based on that evidence, we have concluded the following:

On the **appropriate balance between provincial and school board contributions:**

- The people of Saskatchewan believe expenditures on K-12 education are an important priority.
- The provincial government in Saskatchewan contributes a smaller percentage of funding to education expenditures than any provincial government in Canada.
- Per pupil expenditures on K-12 education in Saskatchewan are lower than any province outside the Atlantic Provinces.

On the **appropriate balance between the use of property tax and other sources of taxation:**

- Education property taxes in Saskatchewan are the highest in Canada – on a per capita basis and as a percentage of Gross Domestic Product.
- Education property taxes are not sufficiently related to ability to pay, income fluctuations, or benefit received to warrant the high degree of reliance upon this revenue source.
- In Saskatchewan the reliance on property tax to fund K-12 education should be reduced.

On **fairness and equity among different classes of property taxpayers:**

- Education property taxes are not as fair as other forms of taxation, particularly income and sales taxes.
- Given the current assessment system, we were unable to conclude that one property class was treated more or less fairly than another.
- Comparing property classes reveals significant differences in taxation levels, taxation rates, and changes in taxation over time. These variations are caused by provincial percentages of value, local mill rate factors, assessments, and income tax deductibility.

On **local fiscal capacity among school divisions** and variations in assessment and spending per student:

- There are significant inequities among ratepayers in different school divisions.
- The current provincial grant program goal of providing an equalizing mechanism for the distribution of grants is sound. A number of improvements are needed to achieve greater simplicity, transparency and cost validation.
- Voluntary restructuring of school divisions has been successful as a first phase. It can not, however, adequately address school divisions with widely varying mill rates.

On **other issues** around the financing of K-12 education that the Commission and the government of Saskatchewan agree should be addressed:

- Expectations on the school system have expanded to include delivery of human services as well as education programs. There was strong support for this role for schools. Fulfilling these expectations has a cost. The province and boards of education need better information on costs and expenditures, particularly as they relate to programs and outcomes.
- Fiscal autonomy is important to Saskatchewan school divisions. Some level of autonomy is important to give school divisions flexibility to meet local needs.
- The property tax policies and property assessment system in the province might be characterized as holding high ideals, but are subject to instability and a number of inconsistencies.

Our recommendations

As the Commission narrowed its options, we focused on recommendations that would reduce the over-reliance on property taxation to fund education, reduce inequities in the K-12 education financing system, and would support the implementation of a fairer financing system.

The recommendations provide for a reduction in education property taxes through an increase in funding from the provincial government. This reduction will provide for a fairer taxation system and bring Saskatchewan more into line with how K-12 education is funded in other provinces.

We do not recommend an increase in overall taxation. Rather the Commission recommends that the provincial government find the resources to support the education property tax reduction by examining priorities and revenue growth, and shifting the reliance from education property tax to the provincial sales tax.

The Commission recognised a need for significant, immediate education property tax reductions and a longer period of time to accomplish the large shift needed to bring about a more balanced approach to financing K-12 education. Therefore, the full impact of the recommendations will not be felt for six years, until 2009.

The Commission also concluded that there are significant inequities in the funding of the K-12 system, which could not be addressed sufficiently by greater provincial funding without sacrificing the principle of school division autonomy. Given the very uneven distribution of highly assessed properties across the province, the Commission recommends that the education property taxes from a major portion of these properties be collected provincially, retained in a special fund and redistributed through an improved equalization program called the Saskatchewan Tax Equalization Program (STEP).

Even the provincial collection of education property taxes from some highly assessed properties will leave significant inequities among school divisions. Therefore, the Commission also recommends the restructuring of school divisions.

For a variety of reasons, recent history has demonstrated that significant increases in provincial school grants do not necessarily result in reduced property taxes. Therefore, the Commission recommends that during the initial implementation period, the province establish limits on local governments so that taxpayers receive the full property tax relief intended. Given the way in which the recommended changes will affect different areas of the province, the limits will need to be reasonable so that a balance can be found between local government autonomy and the need to pass a property tax reduction on to taxpayers.

In a related matter, the Commission has concluded that the expectations on the school system have increased. We have also concluded that these expectations might not be clearly defined or funded. In fact, the Commission is of the opinion that the financial information systems of the Department of Learning and school divisions need to be improved to achieve better program cost accounting and outcome based funding. This final report provides both general and detailed recommendations on improving these systems for the K-12 education sector. They include matters related to the School$^{\text{PLUS}}$ initiative and the need for public, separate, francophone, associate schools, and other systems to work together while respecting the basis for these systems.

Perhaps the issues most often mentioned in our consultations related to provincial property tax policy and assessment. Although these matters were outside of the mandate of the Commission, our final report provides a recommendation supporting greater stability, consistency, and transparency in these matters.

Impact of our recommendations

By 2009, the impact of the Commission's recommendations will include the following:

1. The provincial government contribution to education will be 80% of the expenditures on education ($957 million), with 20% being raised locally ($258 million). (80:20)
2. Education property taxes will be reduced to approximately 30% of expenditures ($405 million), with 20% raised locally and 10% provincially. Other provincial tax revenue will be increased to 70% of education expenditures ($810 million). (70:30)
3. On average all property classes will receive close to a 43% reduction in education property taxes. The education property tax reduction will be $123 million for residential property taxpayers, $102 million for commercial property taxpayers and $75 million for agriculture property taxpayers.
4. Education property taxes will contribute $405 per capita to the cost of education. The 2002 national average was $357. The per capita contribution in neighbouring provinces was: British Columbia – $292, Alberta – $494, and Manitoba – $417.
5. The competitiveness of the province should be maintained. The impact on consumers, businesses and agricultural taxpayers will be about equal.
6. All school divisions will receive a provincial operating grant.
7. The school divisions with the highest assessment per pupil are currently 13 times wealthier than the provincial average for school divisions. This will be reduced so that they are less than three times as wealthy as the provincial average.
8. Based on the 2003 data, only six school divisions, with a total enrolment of 1,750 students, will experience a property tax increase. (Big Butte – 2 students; Estlin – 5; St. Alphonse – 18; Grand Coulee – 70; Weyburn Central – 728; and Estevan Rural – 926)

The Commission on Financing K-12 Education was charged with finding the best way to finance K-12 education. We believe we have recommended a balanced approach which provides the greatest degree of fairness and equity for students and taxpayers in the Saskatchewan context.

The overarching concern for the Commission has been financing education in a manner that is fair and equitable to all students regardless of where they live.

Introduction

1

Introduction

Over the last eight months, the Commission has consulted extensively with the citizens of Saskatchewan to find an appropriate balance in the way K-12 education is funded in this province. This final report reflects that work. It is based on extensive research and many discussions with people determined to secure the future of our education system for students today and into the future.

The overarching concern for the Commission has been financing education in a manner that is fair and equitable to all students regardless of where they live. Our student population is sparse and continues to dwindle in cities and rural areas alike. Knowing this, how can we ensure that all students receive the best education we can deliver?

We are all well aware that the question of equity is a legitimate concern. We know that this question relates to the funding of education as well as the programs available to students. The Commission has attempted to deal with these issues. Although there are no easy answers, we feel that we heard from enough people in the province to formulate a practical position on this question.

This report is the voice of those people – the people who came to our public meetings, called us on the phone, sent us their thoughts by email and submitted written briefs. All shared their positions openly and honestly. Whether from the city or the farm, people let the Commission know exactly where they stood.

People were not upset with the educational system. Rather, they were unhappy about the way the system is financed. They told us loudly and clearly that Saskatchewan relies too heavily on property tax to fund K-12 education and that must change. We were told in no uncertain terms that the dedication of property tax to fund education must change.

This report is based on what people have said and backed up by our research. It outlines the most common themes, suggestions for implementation and ideas for change the Commission received over the last eight months. It summarizes our conclusions and provides a series of recommendations for change based on our findings and grounded by our objectives and principles. We believe they balance what we have heard from Saskatchewan people with strategies that are practical, affordable and sustainable for the province and the education sector.

Mandate and process

2

Mandate and process

In May 2003, the government of Saskatchewan established the Commission on Financing Kindergarten to Grade 12 Education. The Commission's purpose was to engage the education community, municipal governments, provincial government and the public in meaningful and informed dialogue on the financing of kindergarten to grade 12 education in this province. The purpose of these consultations was to answer the question: What is the best way to finance K-12 education in Saskatchewan?

Mandate

The Commission was asked to examine issues, identify options and make recommendations, taking fully into account the range of implications for each option, with respect to the following:

a. the appropriate balance between provincial and board of education contributions to the financing of K-12 education

b. the appropriate balance between the use of property tax and other sources of taxation to finance K-12 education

c. fairness and equity among the existing classes of property (agricultural, commercial and residential) in financing K-12 education

d. local fiscal capacity among school divisions and variations in assessment and spending per student among school divisions, including impacts on access to high quality education for students and on equity among taxpayers

e. any other issues respecting the financing of K-12 education that the Commission and the Government of Saskatchewan agree should be addressed by the Commission

Principles

The Commission is guided by the following principles:

a. sustain high quality, publicly funded education programming

b. ensure equity of student education opportunities across all school divisions

c. ensure equity and fairness for all education property taxpayers (agricultural, commercial business and residents)

d. maintain or improve tax competitiveness in Saskatchewan

e. ensure fiscal sustainability for boards of education and the province

f. maintain school division autonomy and ensure continued accountability of boards of education

g. improve tax fairness and simplicity of tax administration in Saskatchewan

Activities of the Commission

To achieve its mandate, the Commission undertook a public consultation process and a program of research. Both initiatives were designed to ensure that the Commission:

- was well informed of the views and opinions people hold about the issues
- understood the facts of the matter at hand

Public consultation

The Commission's public consultation process had two purposes. The first was to hear the issues from the point of view of the public and stakeholder groups. The second was to gather proposals for resolving the issues. To accomplish this, we used several approaches. During our first month of operation, we sent letters of introduction to numerous interested parties, announcing the Commission and inviting participation. The Commission also met with key educational organizations and municipal and provincial government bodies.

arly on, the Commission decided to nsure that all of its work was public nformation and readily available. All naterial produced by the Commission long with research material and briefs ubmitted by individuals and groups is osted on our Web site. Traffic to the site as grown steadily throughout our process.

n June and August, 2003 the Commission eld evening public meetings in 17 ommunities across Saskatchewan. The meetings were publicized through ocal newspapers and radio stations and promoted in news releases. Nearly 600 people attended these two and one-half hour meetings, at which we provided:

- information about the Commission and its activities
- background about the current approach to financing K-12 education in Saskatchewan and across Canada
- an opportunity for people to share their views with each other and the Commission

Most who attended the meetings were nvolved at some level in the education inancing process. The majority of people attending were school trustees, municipal councillors, small business people and armers. We also heard from parents, grandparents, people without children, retirees, and parents who home school their children. After group discussions, participants completed a discussion guide or questionnaire that focused on the Commission's main areas of investigation.

n evaluation of the meetings, more than 96% thought the format of the meetings gave them an opportunity to share their views and valued the chance to hear and discuss the issues with others. About 92% thought the information the Commission provided was easy to understand and helped them understand the issue.

The Commission held 108 one-on-one meetings with over 78 interested individuals and groups. These meetings provided an opportunity for more focused and personal input. Many of these groups submitted briefs to the Commission.

Following the release of our interim report, the Commission met again with key stakeholders including the Saskatchewan Urban Municipalities Association, the Saskatchewan School Boards Association, the Saskatchewan Association of Rural Municipalities and the Saskatchewan, Regina and Saskatoon Chambers of Commerce. These meetings helped us to focus our thoughts as we worked toward our final report and recommendations.

Submissions

The Commission received 160 written submissions from groups and interested individuals. Some organizations submitted more than one brief as the Commission's work took shape. All submissions are available on the Commission's web site at www.cfe.gov.sk.ca

Toll-free line

The Commission established a toll-free phone line for people who wished to speak directly with the Commissioner about their concerns.

Research and analysis

To ensure the Commission was well informed about the issues and facts surrounding this matter, we spent a significant amount of time reviewing literature and gathering information from other jurisdictions, government departments and interested parties. We always met strong support in our efforts to seek information.

Although the work of the Commission was generally organized around the four main goals in our terms of reference, it was also heavily influenced by the assertions and questions raised during the public consultation process.

In November 2003, the Commission asked Dr. John R. Allan to provide an assessment of the relative fairness of the major taxes in Saskatchewan. His research paper, Restructuring the Funding of K-12 Education in Saskatchewan, along with the terms of reference for the study, can be found on the Commission's Web site.

Public opinion poll

In September, the Commission conducted a public opinion poll to validate what we'd heard during our consultations. The results of the poll are summarized in Appendix H. The complete poll results are available on the Commission's Web site.

Invitational symposium

Our initial plans included an invitational symposium scheduled for October 30, 2003. The event was designed to help the Commission validate what it had heard during its consultation process and receive feedback on options for resolving the key issues. When the provincial election was called, we felt it was inappropriate for the Commission to discuss the issues in such a public forum.

Instead, we scheduled an additional series of very focused one-on-one meetings with key stakeholder groups to test our conclusions and discuss options. These meetings were very useful in helping us to formulate our final conclusions and recommendations.

Assertions

3

Over the past eight months, we have heard many things about the current system of financing K-12 education. We have sorted them into a number of themes or assertions to bring focus to our review.

The importance of K-12 education in this province is the over-arching principle that has set the stage for our discussions. The public and other stakeholders have been clear in their belief that K-12 education is key to the future of the province. It is generally considered a broad social responsibility that benefits all of society – something that everyone should support.

The Commission was also reminded that the financing of the system needs to be based on principles like equity, sustainability and quality of education.

The comments and suggestions we heard were numerous and varied. We've grouped them into the following themes or key assertions:

1. Education property taxes are too high.
2. Property taxes are unfair.
3. The province should contribute more to the cost of education.
4. The education financing system creates inequities among school divisions.
5. The property tax and assessment systems are not working.
6. School board autonomy is an important issue.
7. The Foundation Operating Grant is not working.
8. Expenditures need to be examined.

Building on our interim report, we outline what we heard in our consultations and what we have found in our research around each assertion. Although these are the common assertions we heard, it's important to note that not everyone agreed on these points.

Assertion #1 – "Education property taxes are too high."

Property taxes consist of municipal taxes, which fund municipal governments, and school taxes collected by municipalities but calculated and spent by boards of education. In some cases, library taxes used to support local libraries are part of the equation.

Property tax in Saskatchewan is paid by home and land owners on residential, seasonal residential, commercial and agricultural property. Indirectly, renters may also pay property tax through their rent. The most common view we heard was that property taxes, and education property taxes in particular, are too high.

What have we heard?

Regardless of the type of property people owned or the group they represented, the resounding opinion at our public meetings was that property taxes are too high and our heavy reliance on them for education is inappropriate.

Residents of cities and towns, farmers and business people, owners of acreages and those with cottages – people from all walks of life expressed these concerns. Most compared their situation to that of people in neighbouring provinces. They pointed out that the tax load on comparable properties is much higher in Saskatchewan.

While people are concerned about overall property tax levels, they generally recognize that it is the education portion of the tax that has grown most dramatically. This is what most people take issue with. Many boards of education acknowledge that their rate-payers are "taxed to the limit". Some fear a revolt if they raise mill rates again.

Several rural municipalities told us they feel unable to raise their mill rate due to rising property tax levels and the impact a further increase would have on local farm families. As a result, some RMs have delayed maintenance of infrastructure and replacement of equipment.

"Most people are not objecting to paying tax but they would like to see fair taxation. In the years 1986 to 2003 the following (has occurred for) the rural taxpayer versus the small urban taxpayer:

R.M. of Hillsdale

	Population	School Taxes	Cost Per Capita
1986	610	$401,994.68	$659.01
2003	566	$1,102,300.14	$1,947.53
Percentage change in school taxes paid per capita			***196% increase***

Village of Neilburg

	Population	School Taxes	Cost Per Capita
1986	355	$87,566.18	$246.67
2003	366	$106,268.20	$290.35
Percentage change in school taxes paid per capita			***18% increase***

"Does this look like fair taxation?"

RM of Hillsdale

he RM of Hillsdale shared some nformation (above) on the impact of roperty tax on rural and urban residents lue to the shifting population in that area.

erhaps the most vocal group on the topic s the agriculture sector. This sector has een hit hard in recent years and farm ncomes have declined. But the property ax bill, a large expense for many, demands ayment regardless of profit. Some farmers re finding it more and more difficult to pay bill that, in many cases, grows each year.

he difference between rural and urban erspectives on property tax levels was lemonstrated in a poll undertaken by he Commission in September 2003. Respondents were evenly divided when sked: "Do you think the level of school roperty tax you pay is too low, about right, r too high in relation to the level of other axes you pay, such as income tax or sales ax?" There was, however a clear difference f opinion between city and farm dwellers. Of those who live on farms, 72% thought he level of property tax was too high. n cities, only 33% shared this view.

The poll also asked whether people agreed in general with using property taxes to pay for education. The majority of the respondents (52%) agreed or strongly agreed. Again, there were differences between city and farm dwellers. Those in the cities generally agreed with the concept of education property tax (62% in favour, 24% opposed). Those on farms were far less supportive (35% in favour, 52% opposed).

A third question asked about the importance of reducing various types of tax. It is interesting to note that respondents most favoured a reduction in the gas tax with a rating of 3.9 out of five, while property tax ranked last with a rating of 3.4 out of five. However, those on farms were most concerned about school property tax.

Since agriculture is such an important part of our economy, many businesses are feeling the impact of declining farm incomes. The Commission heard often that high property taxes affect business and economic development throughout the province. Urban and rural municipalities report that property taxes have stifled economic activity in their communities.

"I moved on the acreage in August 1999. My taxes were $3200 and are now $7400. More than double in three years."

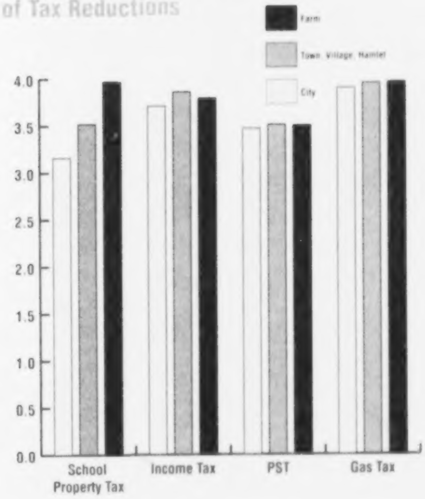
"We, as retirees, will be unable to reside in this area if our taxes continue rising to this extent."

Residents of Corman Park

"Taxes are our biggest expense after the mortgage and in years like this there isn't much left after paying the taxes and lease fees. ... Please reconsider your method of taxation and the amount collected through property tax."

Bob Taylor

Figure 1: Poll on Importance of Tax Reductions



Data Source: Public Attitudes Study prepared by Sigma Analytics for the Commission

According to the Association of Regina Realtors Inc., 94% of its members report that property taxation has negatively affected the real estate market to some extent. Another 80% say they have personally been involved in a real estate transaction negatively affected by property tax in the last five years. Likewise, the City of Moose Jaw says increasing property taxes have had an impact on development and housing starts in that city.

The North Saskatoon Business Association Taxation Committee suggested that higher income earners, who own larger homes, invest in properties and businesses, and tend to create new wealth and opportunities, are also the most mobile members of society. The committee suggested that these income earners provide significant contributions to the tax system and when they leave, it affects property values and revenue growth.

Finally, people reminded us that concerns over property tax levels are not new. The Saskatchewan Association of Rural Municipalities (SARM) included in their brief a resolution passed at its annual convention in 1964. The Association points out that since that time, many resolutions have been passed, many papers have been written and meetings have been held on the issue. People are concerned that this topic has been debated for decades with little or no change.

What have we found?

Not only has this issue been around for a long time, it has also been studied many times. Recommendations for improving the property tax system in this province were made in reports dating back to the 1930s.

In 1965, The Royal Commission on Taxation found that education was the largest single expenditure for municipal governments in the early 1960s and school property tax represented almost half of the total property tax bill in the province. The commission predicted that the cost of education would continue to increase substantially and concluded that "it is to be doubted if the total property tax bill can be safely pushed much further without, in many instances, passing the point of tolerability."[1]

The City of Saskatoon established an independent Tax Review Committee in 1997 to look at many tax issues, including the education funding. The committee concluded that "allowing property taxes to get too high is punitive to those whose 'wealth' is solely or largely in the form of property, whether that is a residence or a business."[2] The committee recommended that the province shift the burden of education funding from property tax to provincial taxes and reduce the reliance on property tax to a maximum of 40% over five years.

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[1] *Royal Commission on Taxation. Report of the Royal Commission on Taxation. (Regina, 1965).*

[2] *Osborn, A., Brown, S., Vicq, J. Saskatoon Tax Review Committee Report. Tax Review Committee. (Saskatoon, 1997).*

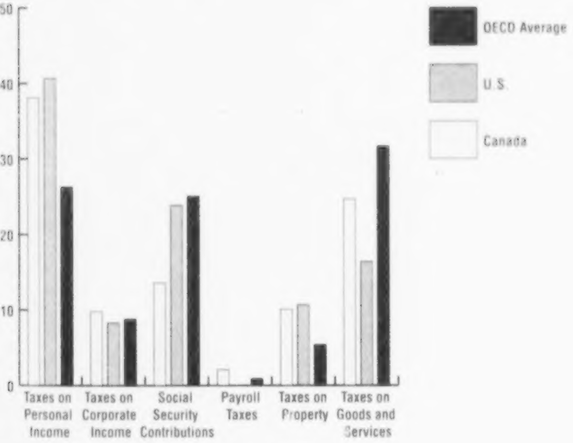
To determine if property taxes in Saskatchewan are too high, we looked at a number of studies on the level of property ax here compared to other jurisdictions. The analysis begins with a discussion of property taxation more broadly (including nternational comparisons) and then considers property taxes levied on different classes of property, and concludes with some examination of the education portion of the property tax more specifically.

nternational comparisons

Research summarized by the Canadian Tax Journal[3] compares Canada's various tax ates to the 30 countries in the Organization or Economic Co-operation and Development (OECD). In 1999, most OECD countries relied less on property ax as a source of revenue than Canada. With property tax comprising 3.9% of gross domestic product (GDP), Canada ied with the United Kingdom for second highest. Only Luxembourg had property axes that were slightly higher at 4.0% of GDP (See Schedule of Tables, Table 1 at the back of this report).

As the following chart shows, Canada also derives a higher percentage of its revenue rom income tax and property tax than most OECD countries.

Figure 2: Distribution of Major Tax Revenues (% of Total)



Data Source: Canadian Tax Journal's analysis of OECD data, 1999.

A look at taxes levied by state governments in the United States, shows that they place only a slight reliance on property tax as a source of revenue.

Figure 3: Distribution of State Taxes (% of Total)

	Property	Sales	Selective Sales	Individual Income	Corporate Income	Other
U.S. Total	1.8	33.5	15.4	34.7	4.9	9.8

Source: U.S. Bureau of the Census, 2002

Comparisons across Canada

A similar comparison using 2002 Statistics Canada data shows how Saskatchewan derives its tax revenues relative to other provinces. Figure 4 compares property tax revenue (levied by provincial and local governments) to revenues from income tax, consumption tax and other taxes levied by provincial governments.[4] The chart shows that Saskatchewan relies more heavily on property tax than the Canadian average. Saskatchewan's reliance is about the same as British Columbia's, but not as high as Ontario's.

> *"With respect to the concern over property and education taxation among our agri-business members, CFIB found that Saskatchewan's level of concern is among the highest in the country. CFIB calls on the government to examine ways to bring down the 'effective tax rate' on agricultural property towards the provincial average in Canada."*
>
> **Canadian Federation of Independent Business**

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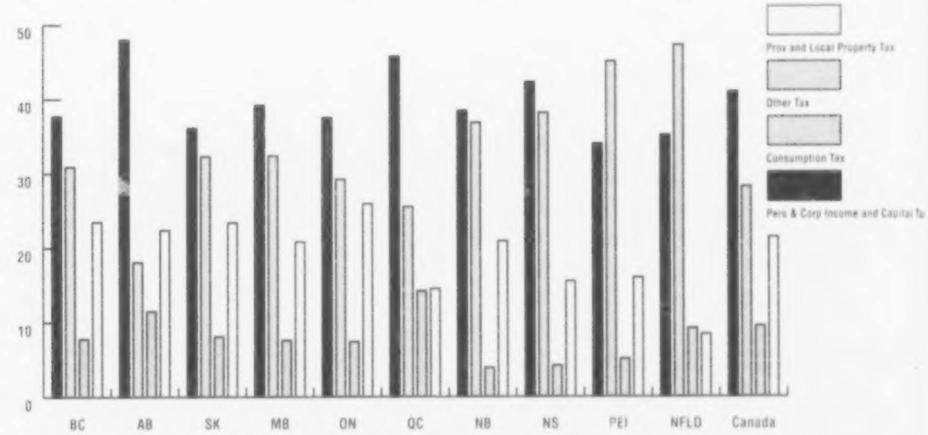
[3] Perry, David B. Fiscal Figures: International Tax Comparisons. Canadian Tax Journal. Vol. 50. No. 3. Table 2. (Toronto: Canadian Taxation Foundation 2002).

[4] The data includes personal and corporate income taxes, capital taxes, consumption taxes, health and drug insurance, and other taxes levied by provincial governments, and general property taxes levied by provincial and local governments in 2002.

Figure 4: Distribution of Tax Revenues – Canadian Provinces (% of Total)



Data Source: Statistics Canada – federal, provincial and local government revenue and expenditure: fiscal year ending March 31, 2002

"Personal income, capital and corporation taxes have been cut, but property taxes remain an issue – finding ways of reducing local government reliance on property taxes will be a key future challenge."

Institute of Chartered Accountants of Saskatchewan

Data suggests that Saskatchewan is competitive with other provinces in terms of overall taxation, but that appears to change when looking solely at property tax levels. In its *Saskatchewan Check-Up 2002*,[1] the Institute of Chartered Accountants of Saskatchewan compared personal income and direct taxes levied across several provinces. (See Figure 5). It analyzed all direct taxes levied on individuals, including net provincial and local property taxes, personal income tax, average retail and fuel taxes, health care premiums and/or payroll taxes assessed on the taxpayer. It showed that Saskatchewan had lower levels of direct taxes per capita than the other provinces studied and that a 3% reduction in taxes over the year 2000 was primarily attributable to the income tax reforms introduced by the provincial government in 2001.

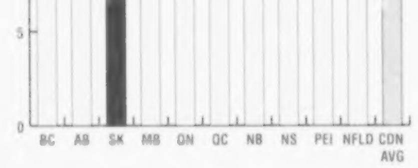
Figure 5 – Direct Taxes Per Capita

	2000 ($)	2001 ($)	% Change 00-01
BC	4,395	4,243	-3.5%
AB	5,144	5,190	0.9%
SK	3,574	3,457	-3.3%
MB	4,066	4,095	0.7%
ON	5,137	5,171	0.7%
CANADA	4,664	4,649	-0.3%

Source: Saskatchewan Check-Up 2002, using data from Statistics Canada

Looking at Statistics Canada data, we see that Saskatchewan is competitive with most other provinces when it comes to total provincial taxes and fees as a per cent of gross domestic product (GDP). Note that this data includes property taxes that are levied by the provincial governments of B.C., Alberta, Manitoba, Ontario, New Brunswick, and P.E.I. (See Figure 6).

Figure 6 – Total Provincial Taxes & Fees (% GDP)



Data Source: Statistics Canada, 2002

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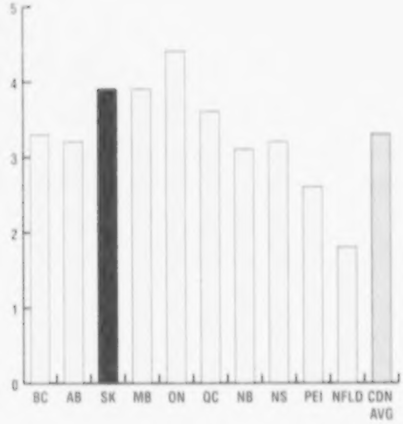
[1] Saskatchewan's Chartered Accountants: Saskatchewan Check-Up 2002

However, Saskatchewan's competitiveness changes when you look solely at property taxes, levied by provincial or local governments or both. Saskatchewan and Manitoba are tied for second highest behind Ontario with property taxes accounting for 3.9% of GDP. (See Figure 7). For more information, see the Schedule of Tables, Table 2.

Figure 7 – Total Provincial and Local Property Taxes (% GDP)

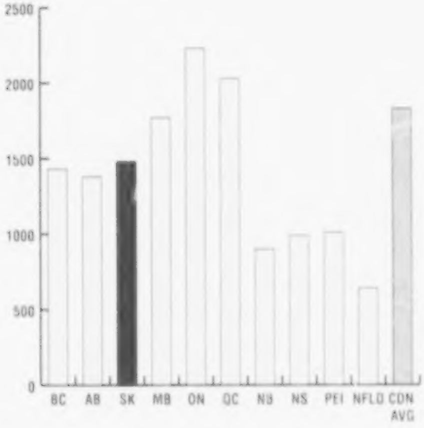


Data Source: Statistics Canada 2000

Property taxes on individuals

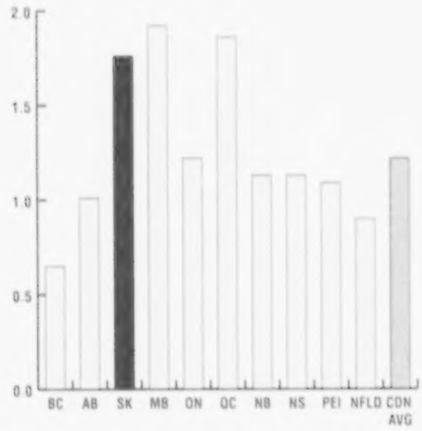
A recent Statistics Canada study[ii] of property taxes paid by home owning families, found that Saskatchewan had the fourth highest average property taxes behind Manitoba, Ontario and Quebec (See Figure 8). When this study examined effective property tax rates or the tax paid on property relative to its value, Quebec and Manitoba remained the highest taxed jurisdictions with Saskatchewan close behind (See Figure 9). The data for these figures is provided in the Schedule of Tables, Table 3.

Figure 8 – Average Property Taxes, 1999 ($)



Data Source: Statistics Canada Survey of Financial Security – Property Taxes, July 2003

Figure 9 – Effective Property Tax Rates, 1999 (%)



Data Source: Statistics Canada Survey of Financial Security – Property Taxes, July 2003

An annual housing survey performed by Royal LePage also provides an indication of property tax levels across Canada for different types of houses. The survey suggests that property taxes (and effective tax rates) in Saskatoon are higher than the Canadian average for most housing types (See Schedule of Tables, Tables 4 and 5).

Property taxes (and effective tax rates) in Saskatoon are higher than the Canadian average for most housing types.

[ii] Statistics Canada. Perspectives on Labour and Income. Vol. 4. No. 7 (Ottawa: 2003)

Assertions

Data from the federal equalization program tells us that on a per capita basis, Saskatchewan had higher provincial and local property taxes in 2001 than all provinces except Ontario (See Schedule of Tables, Tables 6).

Property taxes on different property classes

In March 2002, the Canadian Taxpayers Federation released a statement which commented on the "enormous one-year jump in property tax bills" between 2000 and 2001. The federation was concerned not only about the significant overall increase in one year, but by the fact that it affected some property classes more than others.

People told us they are concerned with how property taxes have increased over the last several years. According to the Mill Rate Survey undertaken by Government Relations and Aboriginal Affairs, overall property tax levies increased by nearly 30% between 1996 and 2002. Consistent with the Canadian Taxpayers Federation's concerns, the greatest increase since 1997 was in 2001 (a reassessment year) when overall tax levies increased by more than 7% over the year 2000.

Some classes of property experienced a greater overall increase in certain years than others. The agricultural property class, for example, experienced significant increases in school tax levies in 1997 and 2001 (20% and 15% over the previous years). Seasonal residential property owners experienced large education tax increases in: 1997 (58%), 2001 (16%) and 2002 (21% over the previous year).

A brief submitted by SARM helped us to understand why agricultural producers may be so upset with the level of education tax they are paying.

[illegible]

Canadian Taxpayers
Federation press release
March 20, 2002

"In 1997, due to the change to a market value assessment system, there was a major shift in education property tax to agricultural lands from other properties… The Province implemented a .83 factor on education taxes on agricultural land to partially mitigate the shift. However, agricultural properties still paid $5M more in education tax in 1997 in comparison to 1996.

Starting in the summer of 1999, in response to the high level of education tax on property, tax revolt meetings were held in over 100 rural municipalities. Ratepayers were angry and demanded action. In the spring of 2000 the Provincial Government implemented the "Farm Land Property Tax Rebate Program" … (which) was in effect for 2000 and 2001 only and was not renewed for 2002. The implementation of a rebate program showed that the Province recognized that there was a problem. It was our expectation that the problem would be corrected over these two years, but it was not.

As a result of reassessment in 2001 … there was another major shift of education tax to agricultural lands from other properties. The .83 factor was removed from agricultural lands, with the effect being greater on some municipalities than others.

From 1996, the year prior to the first reassessment using market value assessments, to 2002 total education tax levies in municipalities (not including northern municipalities) have increased (or decreased) as follows:

	1996 Levy	2002 Levy	$ Increase	% Increase
Cities	252,373,466	294,287,284	41,913,818	16.61%
Towns	53,560,562	53,626,885	66,323	<.01%
Villages	20,050,239	16,322,532	(3,727,707)	(18.59%)
All Urban	325,984,267	364,236,701	38,252,434	11.73%
RMs	183,228,871	291,900,464	108,671,593	59.31%
All Rural	509,213,138	656,137,165	146,924,027	28.85%

As the chart shows since 1996 rural municipalities across the province have collectively experienced a 59% increase in the annual education tax levy on property. This compares to only a 16% increase for cities and an 18% decrease for villages."

Saskatchewan Association of Rural Municipalities

From this we see that the large increase in rural education property taxes between 1996 and 2000 that has been attributed to the reassessments. From there, as assessment values increased and enrolments decreased, school divisions in rural areas were deemed to have a greater 'ability to pay' according to the Foundation Operating Grant formula. Consequently, school division property taxes were increased to make up for the lost provincial revenue, compounding the problem over a number of years.

Figure 10 – Comparison of 1996 to 2002 Education Levy by Property Class

	1996 Levies ($Ms)	2002 Levies ($Ms)	$ Change ($Ms)	% Change (%)
Agricultural	107.02	163.08	56.05	52.4%
Residential	222.79	262.87	40.08	18.0%
Seasonal	4.63	11.75	7.12	153.7%
Commercial/industrial/ business/potash	180.09	225.72	45.63	25.3%
Total	**514.53**	**663.42**	**148.88**	**28.9%**

Source: Government Relations and Aboriginal Affairs Mill Rate Surveys

To assess how Saskatchewan's agricultural property class compares to that in other provinces, we looked at data provided by the Department of Agriculture, Food and Rural Revitalization. Comparisons were made on: the property tax levied per farm, property tax per acre owned, property taxes as a per cent of gross farm operating expenses, and effective tax rates. For additional data, see Schedule of Tables, Tables 7 through 9.

As assessment values increased and enrolments decreased, school divisions in rural areas were deemed to have a greater 'ability to pay' according to the Foundation Operating Grant formula.

Figure 11 – Property Tax on Agricultural Property

	BC	AB	SK	MB	ON	CDN AVG	Schedule of Tables
2002 Prop. tax / farm[7]	$889	$1,869	$4,310	$2,923	$1,583	$2,546	Table 7
2002 Prop. tax / owned acre[8]	$4.78	$3.27	$5.50	$5.25	$10.08	$6.02	Table 7
2002 Prop. tax as a % of gross operating expenses	1.0%	1.6%	4.2%	2.1%	1.3%	1.9%	Table 8
Effective tax rate[9] **(adjusted 1997)**	.13%	.28%	.68%	.65%	.42%	N/A	Table 9

Data Source: Department of Agriculture, Food and Rural Revitalization

It is difficult to compare the property tax burden across provinces because each has different assessment policies and exemptions in place. For example, Saskatchewan is the only province that exempts residences and agricultural buildings from the property tax base.[10] In addition, the only comparable data available from Statistics Canada does not capture property taxes paid on leased or rented acres. Therefore all provinces have information based on "owned acres" only.

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[7] *A farm is defined here as farms that were identified under the 2001 Census.*

[8] *Statistics Canada indicates that estimates of farm operating expenses (of which property taxes are one) represent business costs incurred by farm operators for goods and services used in the production of agricultural commodities. Property tax estimates include municipal and school taxes on agricultural land and buildings owned and operated by farmers and may also include property taxes on land leased from government, depending on how producers report expenses. They exclude property on land rented to others as this is accounted for in rent expenses. The personal share of property taxes on the farm house is excluded.*

[9] *Data taken from a study undertaken by Agriculture and Agri-Food Canada in 2002 which used provincial data dating back to 1997. The conclusion they drew on effective tax rates did not make an adjustment for the building exemption, nor did it reflect the current percentages of value for agriculture property (50% and 55% of assessed value).*

[10] *For a brief description of property tax treatment for agricultural properties see Schedule of Tables, Table 9.*

According to the data available, property taxes per farm, per owned acre and as a percentage of gross operating expenses are higher in Saskatchewan than in our neighbouring provinces and the Canadian average. The only exception is tax per owned acre, where Ontario and Quebec are significantly higher which elevates the Canadian average. Later in this report, we examine in more detail whether property taxes are high on agricultural property relative to other property classes within Saskatchewan.

The business community has also expressed concern about the level of property taxation in the province. In 1997, the City of Saskatoon commissioned Donald Gilchrist and Larry St. Louis to study property taxation and its impact on the city.[11] Their initial analysis examined effective tax rates across a number of western cities. The authors cautioned that these comparisons must be interpreted with care as different policies among the cities (such as the relationship between assessed and market values and the reliance on local taxes) make comparisons difficult. They also noted that most cities were in the process of revising their property tax assessments and mill rates, making the data out-of-date shortly thereafter. However, they found the following:

- In 1997, Saskatoon's effective tax rates on business properties were higher than all other western cities studied, except for Winnipeg.
- Gilchrist and St. Louis also looked at whether businesses were shouldering a larger property tax burden relative to their share of the tax base. Their analysis found that the business share of total property value, and the business share of total taxes, were the lowest in Saskatoon in 1997. (See Schedule of Tables, Table 10)
- While the education portion of the business tax bill was almost 56%, and higher than the other cities surveyed, the business community only contributed 36% to the total education levy which was lower than most of the other cities surveyed. (See Figure 12)

[illegible]

Donald Gilchrist
and Larry St. Louis

Figure 12 – Annual Property Tax Burdens

Tax Burden by City (%)

	Calgary	Edmonton	Lethbridge	Medicine Hat	Red Deer	Saskatoon	Brandon	Winnipeg
Share of education levy in total taxes	40.33	40.84	44.74	55.41	48.10	55.66	51.79	43.71
Share of business education levy in education levy	30.21	37.31	33.63	49.32	37.17	35.64	42.75	62.50

Source: The Business and Property Tax in Saskatoon, Donald A. Gilchrist and Larry V. St. Louis, 1997. Gilchrist's estimates based on information provided by cities; data from most recent available years (prior to 1997)

Gilchrist and St. Louis concluded: "there is a concern that business property might be over-taxed with respect to the education component of the total local levy on property owners... The underlying cause was a relatively high reliance of local schools on local property owners in general, rather than a relatively high reliance on business property in particular. We suggest, therefore, that this concern is best relieved at its source, through a combination of cost containment and increased support from broadly based provincial tax revenues."

Gilchrist, Donald A. and St. Louis, Larry V. The Business and Property Tax in Saskatoon. (Saskatoon: 1997.)

Education property tax levels

So far the data presented has mainly referred to overall property tax levels. How does Saskatchewan compare to other provinces with respect to education property tax levels more specifically?

A survey completed for the City of Edmonton compared property taxes on a sample house in cities across Canada. The survey found that Regina and Saskatoon ranked in the middle of the pack (13th and 15th out of 26) with respect to total property tax levels in 2002. However, when education taxes were removed, these cities were much more competitive, ranking 7th and 6th lowest respectively (See Schedule of Tables, Tables 11 and 12).

Since data on education property tax levels specifically is not readily available, the Commission performed its own calculation using Statistics Canada data and information from the Department of Learning. Our information indicates that Saskatchewan has the highest education property tax as a per cent of total property tax per capita and as a per cent of GDP (See Figure 13).

Saskatchewan has the highest education property tax as a per cent of total property tax per capita and as a per cent of GDP.

Figure 13 – Education Property Tax by Province, 2002

	Ed Property Tax as % of Total General Property Tax	Ed Property Tax Per Capita ($)	Ed Property Tax as % of GDP
BC	28%	292	0.9%
AB	49%	494	1.0%
SK	58%	681	2.0%
MB	42%	417	1.3%
ON	31%	455	1.2%
QC	24%	220	0.7%
NB	0%	0	0.0%
NS	25%	165	0.6%
PEI	0%	0	0.0%
NFLD	0%	0	0.0%
CANADA	31%	357	1.0%

Data Source: Statistics Canada; Sask Learning 2002 Provincial and Territory Comparison of Funding Sources for Education (June 2003). The data uses General Tax Only (which includes grants in lieu, but not other wealth tax or capital tax.)

Conclusion

So what can we conclude from all of this? Almost every property tax payer in the province can cite an example of someone in another province or community paying less property tax than they are. We find that the data supports the concern that property taxes in Saskatchewan are out of line with the rest of Canada.

- Our research indicates that Canada's level of, and reliance on, property taxation as a revenue source, is high compared to other countries.
- Saskatchewan's reliance on property taxation is high compared to the rest of Canada.
- Saskatchewan's overall tax regime is relatively competitive; however this competitiveness diminishes when property taxes enter the equation.
- Within Canada, Saskatchewan is at the higher end of the overall property tax spectrum according to most measures. We may not be the highest in all categories but Saskatchewan consistently places among the highest provinces.
- Education property taxes in Saskatchewan are the highest in Canada as a percentage of total property taxes, as a percentage of GDP and on a per capita basis.
- Property tax levels and effective tax rates are relatively higher in Saskatchewan than many other provinces for homeowners, agricultural property owners and businesses.
- Education property tax levies have increased by almost 30% from 1996 to 2002. The agricultural and seasonal residential property classes have experienced the greatest overall increase in levies since 1996.

The Commission has concluded that education property tax levels in the province are high and should be reduced.

Assertion #2 – "Property taxes are unfair."

A consistent comment in our meetings and in written submissions is that property taxes are unfair. People from all walks of life expressed this concern: seniors, farmers, business owners and individual ratepayers. Comments related to the feeling that property taxes are linked neither to the ability to pay, nor to the level of service provided and do not appear to be levied consistently on different taxpayers.

What have we heard?

Many people expressed the view that property taxes are "regressive" and not linked to ability to pay. While individuals may have different interpretations of the term regressive, it is generally used to describe a tax that does not increase as income levels increase. The rate of a progressive tax, on the other hand, would increase with rising incomes. This terminology was used extensively by people referring to the appropriateness of property tax, especially to fund something as important as education.

The Saskatchewan Real Estate Association submitted a paper citing, among other things, concern for seniors on fixed income who have trouble paying their property taxes. "Property tax bears no relation to ability to pay. For example – a senior living on a fixed income in the home he or she has owned for many years can face extreme financial hardship when property taxes continue to escalate. The value of the home has undoubtedly risen over the years but the individual's ability to pay taxes has probably declined."

Others said they didn't see property taxes related to a specific benefit. Most agreed that education is a public good and must be funded by all; however, a few felt that those with children in school should pay more. Some questioned whether property taxes should be increasing as rapidly as they are and whether the burden is distributed equitably among communities and different types of property owners. These thoughts led people to conclude that property tax is not a fair tax.

Farmers and others in rural school divisions often see no link between the property taxes they pay and the benefits they receive. They see their property taxes, the education portion in particular, rising while they witness what they feel are decreased levels of service: school closures, longer bus rides and a narrower range of programs than urban schools offer. Rural residents are becoming more vocal about this real or perceived declining level of service.

Others wonder whether taxes should be specifically dedicated to education, thereby allowing taxpayers to see the level of service provided for the taxes paid. This position was supported by respondents to the Commission's September 2003 poll. The majority of respondents agreed or strongly agreed that "a change should be made so that the province's share would come from a specific tax dedicated to funding schools".

The Commission also heard consistently from people who know of others with similar property but a lower tax burden than themselves. This is somewhat justifiable if the property is in a different province, as there are different tax regimes in place. It is less understandable when it happens in a neighbouring municipality.

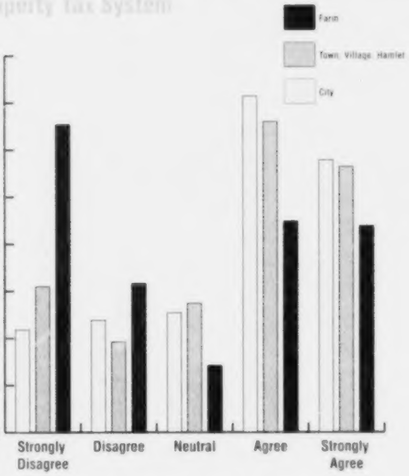
"The level of benefits an individual receives from education is the same whether that individual owns one quarter of land or 20 quarters of land, or a $10,000 residence or a $100,000 residence, yet those with more land are expected to pay more for education. We do not feel that this is fair."

RM of Golden West

> *"Had we known how outrageous and unfair the property taxes were we would have looked elsewhere for acreage property – just across the road from us (Blucher) is half as much. I believe the overall high taxes in Saskatoon will deter families from moving here as Saskatoon is rapidly gaining a poor reputation in this regard. We pay double the property tax as friends living on a similar acreage property outside Calgary."*
>
> **Residents of Corman Park**

Our polling indicates that people on farms are more concerned about this issue than those in cities. The majority of respondents (almost 60%) agreed that the property tax system works so that people with similar properties pay similar amounts of tax. However, a significant number of rural respondents disagreed or strongly disagreed (49%).

Figure 14 – Poll on Fairness of the Property Tax System



Data Source: Public Attitudes Study prepared by Sigma Analytics for the Commission

What have we found?

People told us they feel the system is unfair when they see others in similar situations paying lower amounts of tax. Some also feel that those in different economic situations or property classes should pay more, but how much more?

Equity in property taxation

The literature often describes two different principles for determining equity in taxation. Horizontal equity is the notion that people with the same ability to pay should pay the same amount of tax. Vertical equity occurs when people in different economic circumstances pay different amounts of tax. Without stating it as such, Saskatchewan tax-payers have been expressing concerns about horizontal and vertical equity.

It is difficult to assess horizontal equity in property taxation because of the many policies at work in the system. Exemptions, abatements, rebates, mill rates, special mill rate factors, percentages of value, changes in assessment practices all muddy the waters. However, most people would accept that you can at least compare the tax load on similarly valued properties.

Vertical equity, on the other hand is more difficult to estimate when the system is not transparent or easy to understand. For example, people don't really know what other property classes are paying and what mechanisms (exemptions, mill rate factors, etc.) are used to compensate those classes for higher tax loads. If a home is worth twice as much as another, does the homeowner pay twice the amount of property tax? Should a property of the same size, which is used for business purposes, be taxed in a similar way or should it be levied at a higher rate than a residence?

Benefits received and ability to pay

The literature goes on to describe two possible criteria for determining vertical equity: linking taxes to benefits received and linking taxes to ability to pay. It is easy to see how a fee-for-service tax would meet the benefits principle. The more a person consumes, the more benefit received, the more taxes paid. But how do you link the benefit received from a provincial education system to the amount of property tax an individual pays?

The Ontario Fair Tax Commission,[9] in its review of taxation levels in that province commented on the inadequacies of property taxation as benefit-based tax. "Society has decided that some public services should be provided to individuals as a matter of right and that no direct fees or benefit taxes should be related to them for that reason. Such taxes would inhibit access to these services and would dilute the universal right to their consumption, especially for lower income individuals and families. It would be inappropriate to finance essential services in this way, even if it were technically possible to assign benefits to individuals and to link those services to benefit taxes."

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[9] *Ontario. Fair Tax Commission. Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission (Toronto: University of Toronto Press, 1993).*

The second criteria: ability to pay, is generally measured by income. Some economists argue that using "current income" is not adequate and ability to pay would be better measured over a longer time frame. The theory is that some items, such as homes, are purchased over a longer period of time, assuming that income would rise over that time period rendering the cost of the mortgage less onerous over time. According to Allen Odden, "economists have urged the use of a lifetime income measure for years, but current income continues to be the most politically viable and accepted measure of ability to pay."[13]

Given that income is generally accepted as the most appropriate measure of ability to pay, it follows that vertical equity would be achieved if property taxes increased (either progressively or proportionately) as incomes increased. Many people tell us this is not the case, but what does the research say?

Other studies

Property taxation and its apparent unfairness is not a new phenomenon in Saskatchewan or other jurisdictions. Many studies and reviews have looked into the issue and suggested how the structure could be made more equitable.

In the early 1980s, the Local Government Finance Commission[14] studied property tax and other forms of taxation. In its final report the commission made a number of recommendations to improve the fairness of property taxation in Saskatchewan including:

- introducing an income-related property tax credit intended to compensate for the insensitivity of the property tax to changes in ability to pay and the regressivity of the property tax for those with low incomes
- changing the assessment function to ensure greater equity in the distribution of the property tax load
- changing the formulas used to distribute provincial funds among local governments to ensure greater equality in local tax rates and level of services

Langlois and Scharf, in their 1991 School Finance and Governance Review found that the fairest way to finance educational services is through a progressive income tax, which better reflects ability to pay.[15]

The Ontario Fair Tax Commission's 1993 review concluded that property taxes are not based primarily on the ability-to-pay principle. "The most important step Ontario can take to improve the relationship between taxes and the ability to pay of taxpayers is to reduce this province's dependence on local property taxes as a source of funding for education and to replace the revenue forgone by increasing revenue from more progressive taxes."[16]

We asked Dr. John R. Allan[17] from the University of Regina to do further research of this subject on our behalf. He summarized his research by saying that, "Economists rely upon two principles when assessing the fairness of taxes, namely, the ability-to-pay and benefit principles. According to the former, property taxes would be considered fair if the tax burdens they generate were in conformity with the ability to pay of taxpayers as measured either by income or by net wealth. Alternatively, if there were a systematic correspondence between the property taxes paid and the benefits received by taxpayers, the taxes would be considered fair under the benefit principle. Unfortunately, property taxes appear to fail both of these tests."

[illegible]

Comment from public meeting participant

"Economists rely upon two principles when assessing the fairness of taxes, namely, the ability-to-pay and benefit principles. Unfortunately, property taxes appear to fail both of these tests."

Dr. John R. Allan

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[13] Odden R. Allan and Picus O. Lawrence. School Finance a Policy Perspective. 2nd ed. (United States: The McGraw Hill Companies, 2000)

[14] Local Government Finance Commission. Overview to the Final Report of the Local Government Finance Commission. (Regina: 1986)

[15] Langlois, Herve O. and Scharf, Murray P. School Finance and Governance Review: Final Report. (Saskatchewan: 1991)

[16] Ontario Fair Tax Commission. Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission. (Toronto: University of Toronto Press, 1993)

[17] John Allan is a Professor Emeritus of Economics at the University of Regina and Senior Policy Fellow of the Saskatchewan Institute of Public Policy. He prepared a paper for the Commission entitled "Restructuring the Funding of K-12 Education" in November 2003.

"Since the new farmland ownership rules in Saskatchewan, it has become even more important to retain a property based tax for the support of education."

John Barbier, Vanguard

Benefits of property tax

Property tax does have some positive qualities and a case can be made for the relevance and appropriateness of some level of property taxation in an overall tax regime. Many feel that property is a symbol of wealth and should be taxed. The Ontario Fair Tax Commission felt that a tax on property is one way to capture wealth held in the form of assets that may not be taxed in any other way. In the absence of a wealth tax or inheritance tax, property tax and capital gains tax may be the closest proxies Canada has for taxing this form of wealth.

Another benefit of property tax is that it is relatively stable. According to Odden and Picus, "property tax has some ideal characteristics. In time of economic slowdowns, it produces a steady revenue stream, largely because property values maintain their levels except in very deep recessions. On the other hand, in times of economic growth and/or inflation, property values rise so property tax revenues rise."[18]

The presence of property tax also diversifies the tax base. It may be the only tax that some entities are required to pay. For example, a large corporation that has a head office outside the province may purchase goods and pay corporate income taxes in another jurisdiction. Similarly, those who reside in other jurisdictions but own land here, still require municipal services. Property tax allows for just payment for those services. In the case of municipal services, a more direct link can be made between the tax paid and the benefit or service received.

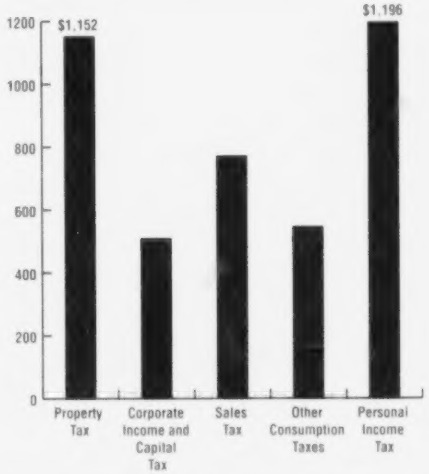
Another benefit is that, as a recognized cost of doing business, property taxes are an expense that businesses (including agricultural producers) can use to reduce income tax payable. This, in effect, exports some of the property tax burden to the provincial and federal governments who receive less personal and corporate income tax as a result.

Finally, according to Dr. Allan, "there is a legitimate, but limited, role for property taxes in the financing of education... Some educational benefits clearly flow to local taxpayers, particularly where school boards identify and respond to local educational needs... It would be quite appropriate, therefore, to rely on local property taxes to finance such activities. Moreover, such taxes have the advantage, from the perspective of a school board, of stability and predictability of yield. The visibility of the tax and its local nature are also conducive to political responsibility and accountability. The problem is not that there is no place for local property taxes in financing education; rather it is simply that the present degree of reliance is excessive."[19]

Do we have the right balance?

In the previous section (assertion one), we noted that other countries and other provinces rely on property tax less than Saskatchewan does. Figure 15 demonstrates that in the year 2002, local governments took in just slightly less revenue in municipal and school property taxes than the province generated in income taxes.

Figure 15 – Property Taxes Compared to Other Taxes, Saskatchewan ($M)



Source: 2002-03 Public Accounts and GRAA's Mill Rate Survey

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[18] Odden R. Allan and Picus O. Lawrence. School Finance a Policy Perspective. 2nd ed. (United States: The McGraw Hill Companies, 2000)

[19] Allan, Dr. John. University of Regina. Restructuring the Funding of K-12 Education in Saskatchewan. Prepared on behalf of the Commission on Financing K – 12 Education. Regina. 2003.

A different way of looking at this is to consider the ratio of property tax (possibly the most regressive tax) to income taxes (likely the most progressive tax). The data includes personal and corporate income taxes levied at the provincial level and general property taxes levied at the provincial and local level. We included this information on an inter-provincial basis for comparative purposes.

Figure 16 – Ratio of Property Tax to Income Tax Across Canada

BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD	CAN
0.67	0.47	0.81	0.57	0.72	0.34	0.57	0.38	0.47	0.24	0.55

Data Source: Statistics Canada 2002

We see from this data that Saskatchewan relies more heavily on property tax compared to income tax than all other provinces. Is this the best overall tax structure for Saskatchewan? We understand that the two main purposes for taxes are to raise revenue and to redistribute wealth. People tell us that property tax is not the fairest form of taxation, particularly for those of low income. If this is so, perhaps we could find a better way to redistribute wealth.

Regressive versus progressive taxes

Is property tax regressive? According to Odden and Picus, for years property tax was viewed as "a steeply regressive tax... In the 1970s, a new view of property tax incidence was developed, which concluded that it had a progressive incidence pattern. Since the 1970s, analysts have essentially been divided into two camps, those claiming a progressive incidence pattern and those claiming a regressive incidence pattern."

The traditional view was that property taxes on land were assumed to fall on landowners while property taxes on improvements were believed to fall on: homeowners in the case of owned homes, tenants in the case of rental property and consumers in the case of business property. The new view suggests that property taxes are a uniform tax on all property across the country, which is borne by owners of capital and is distributed in a progressive incidence pattern. Allan concluded that for a small jurisdiction, such as Saskatchewan, the traditional view of incidence is more appropriate.

Odden and Picus examined many U.S. studies that made a variety of assumptions ranging from the progressive view to the regressive view. They reached the conclusion that "property tax incidence is steeply regressive in the low-income ranges regardless of the conceptual framework used to determine incidence... Its burden is proportional in the middle income ranges, and its regressivity can be reduced by (implementing various) programs".

This view must be generally accepted in the United States, as Odden and Picus describe some of the programs implemented in various states to provide property tax relief to home owners, low-income home owners and other specific groups such as the elderly, veterans or the disabled:

- programs which directly reduce property tax bills: homestead exemptions or credits; tax-deferral plans; property tax classifications (which tax different property classes at different rates); and "circuit breaker" programs (which provide relief to home owners whose income falls in one year due to illness or unemployment, or over several years due to retirement)
- programs which indirectly reduce property taxes: intergovernmental aid programs (such as school finance equalization programs); tax and spending limitations; and local sales and income taxes

> *"To persist in utilizing the educational property tax, most particularly to the degree to which this is done in Saskatchewan, would thus be to perpetuate a system of finance that is both flawed and unfair."*
>
> **Dr. John R. Allan**

According to Odden and Picus, tax incidence analysis examines how various taxes may or may not be shifted. Tax shifting occurs when a party that is legally required to pay a tax does not in fact bear the burden of the tax as it is shifted to, for example, consumers through higher prices, tenants in the form of higher rents, or to employees in the form of lower wages.

Odden R. Allan and Picus O. Lawrence. School Finance a Policy Perspective. 2nd ed. (United States: The McGraw Hill Companies, 2000)

Ibid (pg 133)

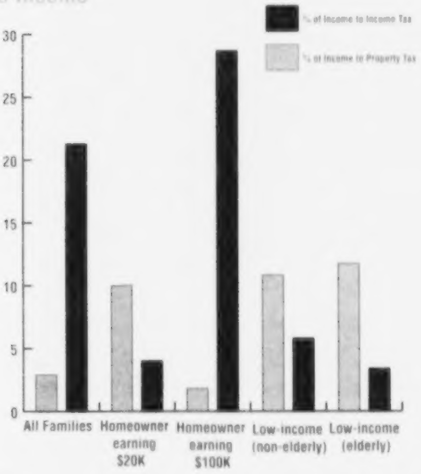
Elderly homeowners with incomes below the low-income cutoff level pay a large percentage of their income in property tax.

The theory seems to suggest that property taxes are regressive, but do we have any data on incidence of property tax in Canada?

A recent study done by Statistics Canada[21] found that residential property tax rates are relatively uniform across the country and across income groups. This means that despite great variation in home values and mill rates across communities, property taxes, on average, were proportionate to the value of the home.

While property taxes may be proportionate to property values, they are not necessarily proportionate to income levels. The same Statistics Canada study compared the average property taxes paid by a family to the average income taxes paid. On average, Canadian homeowners paid 2.9% of their income in property taxes and 21.3% in income taxes. However, the ratio between the two types of taxes varied considerably depending on income levels (See Figure 17).

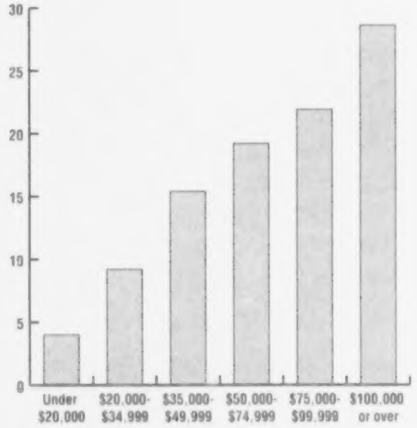
Figure 17 – Property Taxes Related to Income



Source: Statistics Canada Survey of Financial Security: Property Taxes July 2003

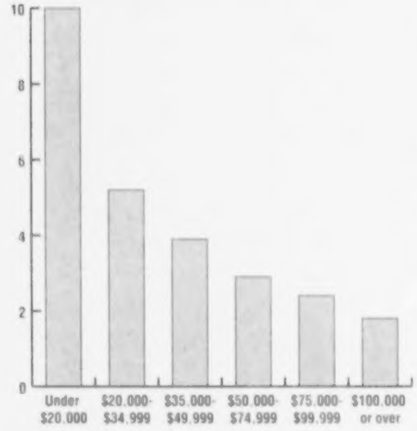
This study demonstrates the unfairness of property taxes for lower income earners. Income taxes increase as income grows. They also provide personal deductions that give some tax relief to those at lower income levels (See Figure 18). Property taxes, on the other hand are assessed at a flat rate on property value. Therefore, those in low-income groups pay a larger portion of their income toward property taxes (See Figure 19). Also, since income typically declines after the major income earner retires, while the value of the home could continue to rise, elderly homeowners with incomes below the low-income cutoff level pay a large percentage of their income in property tax.

Figure 18 – Income Tax (% of Pre-tax Income), 1998



Source – Statistics Canada Survey of Financial Security – Property Taxes. July 2003

Figure 19 – Property Tax (% of Pre-tax Income), 1999



Source – Statistics Canada Survey of Financial Security – Property Taxes. July 2003

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[21] *Survey of Financial Security, 1999 as found in Statistics Canada Perspectives on Labour and Income, Property Taxes: Vol. 4, No 7 (July 2003)*

The Saskatchewan experience

Next we tried to estimate the amount of property tax paid typically by taxpayers in Saskatchewan relative to three other major provincial taxes (income tax, sales tax and fuel tax). We chose a number of different family types, including a single person and a senior couple, earning different amounts of income, and looked at the percentage of income spent on various taxes in Saskatchewan.

Figure 20 – Impact of Taxes on Various Family Types

	Senior Couple @ $30,000	Single Person @ $35,000	Dual Income Family @ $50,000	Dual Income Family @ $75,000	Dual Income Family @ $100,000
Provincial income tax	$463	$2,718	$2,510	$5,308	$8,323
% of income	1.54	7.77	5.02	7.08	8.32
Retail sales tax	$410	$516	$803	$1,082	$1,260
% of income	1.37	1.47	1.61	1.44	1.26
Gasoline tax	$150	$150	$300	$300	$300
% of income	0.50	0.43	0.60	0.40	0.30
Property tax	$1,800	$1,800	$2,400	$2,600	$3,000
% of income	6.00	5.14	4.80	3.47	3.00
Total provincial taxes	$2,823	$5,184	$6,013	$9,290	$12,883
% of income	9.41	14.81	12.03	12.39	12.88

Data Source: Saskatchewan Finance, using 2002 data from the Canada Customs and Revenue Agency; the Royal LePage Survey of Canadian House Prices, Second Quarter 2003, Issue No. 24; and estimates of housing requirements made by the Commission.

Notes to table: % of income is calculated by dividing the amount of tax paid by the household income.

For a complete list of assumptions and descriptions used in the analysis, see Schedule of Tables, Table 13.

The table shows us that in Saskatchewan, provincial income tax is the most progressive in that the per cent of income paid to income tax grows with increasing income. Property tax, on the other hand, decreases as a percentage of income as income grows. In our example, the senior couple earning $30,000 pays 1.5% of their income toward income tax and 6% toward property tax while a family earning $100,000 would pay 8% of their income toward income tax and 3% toward property tax.[21]

While we have displayed the various family types within the same table, it is most accurate to make comparisons only across the same family types that have the same assumptions on tax policies at play (i.e. families to families).

It is interesting that the overall system, with these four taxes working together, still shows a relatively progressive pattern through the income levels (single person at $35,000 excluded). This may suggest that the progressivity of the income tax is making up for other taxes which do not operate in this fashion. The question is, could the overall system be more progressive still if our reliance on property tax was reduced?

Unfairness for specific property classes

While our discussion through this section has been on property taxes in general, and their impact on individuals more broadly, we would be remiss if we did not comment on the concerns raised by the business and agricultural community related to ability to pay.

Property tax decreases as a percentage of income as income grows.

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[21] *The Saskatchewan income tax system is designed to provide additional support to families, thus the single person earning $35,000 pays a greater percentage of his or her income toward income tax than two of the three families profiled in the example.*

In the previous section we discussed how these two groups agree that property taxes are too high. In a later section we will speak in more detail about the impact of the assessment system on property tax policies and equity amongst the property classes. Here we will limit discussion to why these two property classes feel that property taxes are unfair.

The Canadian Federation of Independent Business released a paper in 1995 that stated some of the concerns with property taxation and its impact on business.[illegible] "One of the lasting, but inaccurate justifications of imposing higher property taxes on businesses has been that businesses are better able to afford it. This opinion would come naturally if one's view of a typical business enterprise is a multinational manufacturer or a tenant in a modern downtown office building.

In reality, however, the business sector is not so easily characterized. Most businesses are very small; 75% of all firms in Canada employ five people or fewer. In addition, small business owners are far from well to do. Average earnings of business owners are typically below those of employees."

Property tax, by design, simply doesn't respond to fluctuating income levels.

The CFIB's paper goes on to talk about how the income tax deductibility of property tax is not as great a benefit as one might think for small businesses. The Federation contends the deductibility benefit for small firms is only half of what it is for large businesses (as their corporate tax rate is lower). If a business is losing money, that deductibility is of no benefit at all, yet the property tax bill needs to be paid.

The CFIB may have a point. All businesses, small or large, capital-intensive or labour-intensive pay property taxes at 100% of value. Small businesses, and for that matter, capital-intensive operations may have more difficulty responding to increasing property tax levels because of tighter margins and fluctuating incomes.

This is likely the sorest point for agricultural producers and businesses that rely on a thriving agriculture sector to make their living. Property tax, by design, simply doesn't respond to fluctuating income levels. Having said this, government has recognized the need to provide assistance to business and agricultural producers to make their sectors more competitive. Figure 21 identifies some of the specific initiatives provided in Saskatchewan.

Figure 21 – Specific Business Tax Incentives

Agriculture:	
PST exemption for farm inputs*	$129.7M
PST rebate for livestock and horticultural facilities	$2.0M
Fuel Tax exemption for farm activity	$106.9M
Small Business:	
Corporate income tax rate reduction for small business	$106.4M
Corporate capital tax exemption	$28.1M
Manufacturing & Processing:	
M&P profits tax reduction	$20.0M
M&P investment tax credit	$11.3M
PST exemption for "direct agents"	$8.9M

Dollar values represent the revenue forgone by government as a result of providing the incentive.

**Includes farm machinery and repair parts, fertilizer, pesticide and seed*

Source: Saskatchewan Provincial Budget, 2003-04

[illegible] *Mallett, Ted and Botting, Dale. Silent Killer: The Impact of Local Property Taxation on Saskatchewan's Small and Medium-sized Businesses. Canadian Federation of Independent Business Research. (Saskatchewan: Canadian Federation of Independent Business, 1995)*

Saskatchewan levies relatively high corporate income and capital tax rates but does not levy either a payroll tax on businesses or a health premium, which is often paid by businesses on behalf of employees. The provincial government attempts to offset its corporate tax rates by providing targeted tax reductions and incentives to selected sectors. Although the competitiveness of Saskatchewan's business tax regime is improved by these targeted tax incentives, the following summarizes how Saskatchewan's corporate tax rates compare to those in other provinces:

- Saskatchewan's general tax rate on corporate taxable income in 2003 will be the highest in Canada at 17%.
- The province's current 6% small business tax rate will be reduced to 5% by 2005, which will help to improve the relative standing of this tax rate.
- Saskatchewan's tax rate on manufacturing and processing profits is as low as 10%, depending on the extent of a company's presence in the province. This is the lowest rate west of Quebec.
- Saskatchewan's corporate capital tax rates are higher than those of neighbouring jurisdictions.

Other than the ability to deduct property tax from federal and provincial income tax, businesses do not receive any specific recognition through the property tax system. Along with being the only property class taxed at 100% of assessed value, businesses often take on an additional burden if municipalities choose to shift the tax load away from other property classes.

Agricultural producers, in addition to benefiting from the income tax deductibility and the tax exemptions identified in Figure 21, receive some compensation through reduced assessment levels (50% and 55%) and the exclusion of residences and buildings from the property tax base. Given this, it is extremely difficult to determine if agricultural property owners are shouldering an excessive burden relative to other property classes. At a minimum we can conclude that property tax is insensitive to income and profit levels and our excessive reliance on this type of tax causes concern for both business and agricultural producers experiencing reduced income.

Conclusion

Almost every person we spoke to expressed that property taxes are unfair. We have found that:

- Education property taxes are not as fair as some other forms of taxation. The public told us, and many economists agree, that property taxes do not contain the elements that people typically expect from a fair tax: they are not related to ability to pay, they do not increase in proportion to income, and they are not responsive to changes in income or economic circumstances.
- In the case of municipal services, property tax can be directly linked to benefits received. Linking these taxes to the benefits received from education, however, is less appropriate. People have told us that education is a fundamental right and everyone should share in the cost. Many economists agree that using the 'benefits principle' to judge property tax used for education is not appropriate.
- On the other hand, property tax has some benefits. It is a stable and significant source of revenue that helps to diversify the tax base. It may be the only tax that some pay in this province. Some feel that property tax is one way to capture wealth that would otherwise not be taxed. It is a deductible business expense.

The public told us and many economists agree that property taxes do not contain the elements that people typically expect from a fair tax.

- In Saskatchewan, local governments take in almost as much revenue from property tax (over half of it for education purposes) as the provincial government collects in income tax. Many studies have been done and most economists conclude that property taxes are regressive, making us question whether the heavy reliance on property tax is the best way to redistribute wealth in the province.
- The business and agriculture community also expressed concerns with the fairness of, and high reliance on, property tax. We are unsure whether the other mechanisms in place (exemptions, reduced percentages of value, income tax deductibility, etc.) are adequately compensating these sectors so that they are more competitive inter-provincially. We are, however, more certain that property tax is not sensitive to declining income levels which is of particular concern to small business owners and agricultural producers.

The Commission concludes that we need to find a better, more equitable way to fund education in this province. The reliance on property tax to fund K-12 education should be reduced.

Assertion #3 – "The province should contribute more to the cost of education."

On average, the province currently contributes about 40% of the operating costs of education. Almost everyone we heard from agreed that this provincial share is too low. There was no agreement, however, around what the "right" balance between provincial and local contributions might be.

What have we heard?

The public meetings and written submissions were virtually unanimous that the provincial share of education costs is too low and must be increased. Some folks felt that the province should finance 100% of the cost; others felt that the provincial share should be at least 50%. Many individuals thought a reversal – 60% provincial and 40% local – would be the right balance. Many individuals indicated that the majority of education funding must come from a revenue source tied more closely to ability to pay.

More than 81% of respondents to our September 2003 poll felt that schools are a social responsibility and everyone should pay toward the cost of education. Nearly 71% felt the current cost sharing should change. Virtually all of that group (97.8%) felt the province should pay more toward education financing.

What have we found?

As early as the Report of the Royal Commission on Taxation, elementary and secondary education was viewed as providing benefits far beyond those to individuals or local communities. Public goods attributed to education include social security and cohesion, better personal and family health, stronger contribution to the tax base, and facilitation of a functioning democracy, among many others. This forms the basis for the argument that broad provincial revenues, rather than the local tax base should be the primary source of funding for education programs and services.

International comparisons

In many western European countries, financing of K-12 education is primarily shared among the national, regional and local governments. Denmark funds its schools through central government grants and local taxes, while the Netherlands provides funding almost exclusively through national government grants.

In the United States, there is great variation among state contributions to financing K-12 education. The median state contribution is about 50%. The median local contribution is about 43%. The federal government provides a median amount of 7.5%, primarily to fund national special education and high needs programs.

In Canada, financing K-12 education is the responsibility of the provinces. The federal government, however, maintains responsibility for elementary and secondary education for Indian and Inuit people, armed forces personnel and their families, and federal penitentiaries. This is done in separate federal schools or through tuition arrangements with provincial boards of education.

In 1999, Canada spent about 3.8% of its gross domestic product (GDP) on K-12 (including post-secondary non-tertiary) education. This was slightly above the country mean of 3.6% and the Organization for Economic Co-operation and Development (OECD) total of 3.7%. Expenditures for OECD countries ranged from a low of 2.6% in Greece to a high of 4.6% in New Zealand.

> *"The province should assume incrementally an increase in share of the funding to 60% or greater in the years."*
>
> **Tiger Lily School Division**

Royal Commission on Taxation, Report of the Royal Commission on Taxation. (Regina: 1965)

Unpublished. Parliamentary Research Branch. The Financing of Primary and Secondary Education in Western Europe. August 14, 2003

Johnsen, Mogens K. Learning from Europe: The Dutch and Danish School Systems. Adam Smith Institute. London 2002

See Table 14 in the Schedule of Tables for further information.

Education at a Glance: OECD Indicators 2002

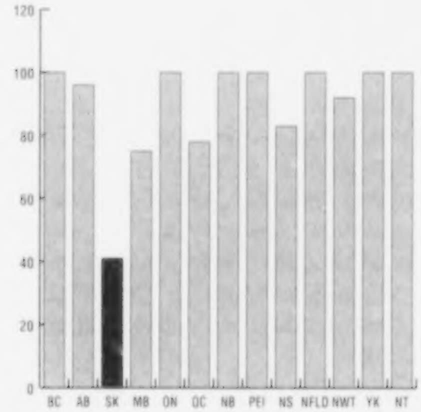
Canadian comparisons

There has been a trend across Canada over the last ten or so years to centralize funding of K-12 education. Most provinces contribute the majority of funding for public education through a combination of provincial property tax and general revenue contributions. The provincial government in eight provinces and territories contributes 100% of the funding. However, in three of those eight provinces, some of that revenue comes from a provincial property tax.[31]

In 2001, Saskatchewan contributed about 41%, all through the general revenue fund.[32] School divisions raised approximately 59% of financing for education through the property tax base and other school division revenues (See Figure 22).

Saskatchewan has the lowest provincial contribution to education per capita and as a percentage of GDP.

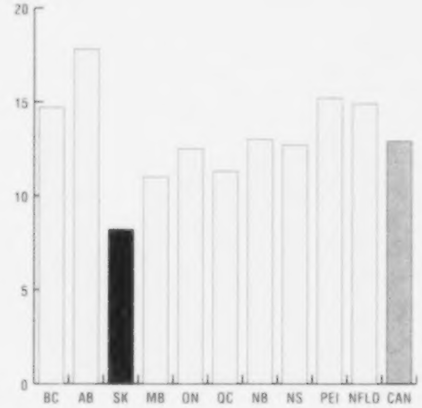
Figure 22 – % of Total Provincial Funding for K-12 Education Costs – 2001



Data source: Saskatchewan Learning, 2002

Based on 2003 Statistics Canada data, the province of Saskatchewan targets less (8.2%) of its provincial expenditures to elementary and secondary education than any other province (See Figure 23). The majority of K-12 education funding in Saskatchewan is provided by boards of education through property tax.

Figure 23 – Elementary & Secondary Education – % of Total Provincial Expenditures



Data Source: Statistics Canada, 2003

We looked at combined 2003 provincial and local government costs for education[33] per capita and as a percentage of GDP. In terms of total expenditures, Saskatchewan is about the middle of the range for both measures. Both indicators show that Saskatchewan spends more overall than the Canadian average (See Schedule of Tables, Tables 16 & 17).

When you remove local expenditures from the equation, Saskatchewan has the lowest provincial contribution to education per capita and as a percentage of GDP (See Schedule of Tables, Tables 18 & 19). It is important to note that the provincial expenditures in Alberta, British Columbia, Manitoba and Ontario are partially financed through a provincial property tax.

Changing the provincial share

So what is the advantage of a higher provincial share? It does not necessarily mean lower property taxes because we know other provinces have implemented provincial property taxes to fund education. We could do so in Saskatchewan without changing the amount of property tax ratepayers pay to finance education.

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[31] *See Table 15 in the Schedule of Tables for detail on share from property tax, both local and provincial.*

[32] *The 2003-04 provincial budget GRF revenue consists of 55% from taxes (corporate, personal, sales, fuel, etc.), 13% from non-renewable resources, 10% from crown entities, 5% from other revenue and 17% from the federal government.*

[33] *Statistics Canada, Financial Management System, CANSIM, Saskatchewan Bureau of Statistics, Online publication.*

In the summary of their discussion on provincial funding, Kitchen and Auld confirm that since elementary and secondary education result in benefits for the broad social good and because provincial governments set uniform standards of education that must be delivered on a province-wide basis, provincial funding must play a significant role if the service is to be provided efficiently. They also suggest that wealth neutrality does not exist when financing is a joint responsibility between local and provincial governments, mostly because of notable differences in local property tax derived from commercial and industrial properties.

Financing a significant share of education from the local property tax base causes significant fiscal inequity across divisions because of differences in property assessment. Increasing the state or provincial share is considered to be part of the solution to this disparity, unless the state is prepared to broaden the local tax base to include other revenue sources such as income and consumption taxes.

Financing a significant share of education from the local property tax base causes significant fiscal inequity across divisions because of differences in property assessment.

The 1993 report from the Ontario Fair Tax Commission recommended full provincial funding of education, partly because of what they believed were inequities for students and taxpayers. They recognized, however, that a central funding model might not be as responsive to local educational requirements as the local board of education. Thus, there was a need for some level of local discretionary spending. The authors recommended this could be a levy on residential property only, of about 10% of the total amount of provincial funding provided to the school board.

Some authors argue that a high state or provincial share won't necessarily produce more equity. They cite jurisdictions with high state shares that continued to have large inequities between districts. They recommend the senior government decide what degree of equity they want for students and ratepayers and then determine the financing arrangement to achieve it.

Conclusion

The people of Saskatchewan believe expenditures on K-12 education are an important priority. The provincial government in Saskatchewan, however, contributes a smaller percentage of funding to educational expenditures than any provincial government in Canada.

Current dissatisfaction with the level of provincial funding is because:

- Education provides benefits that extend beyond the child, the family and the community and should be financed primarily by a broader tax base with a variety of tax sources. Only the province has access to such a broad tax base.
- Property taxes, particularly the high level of education property taxes, are viewed as unfair. An increased provincial share from other tax sources would reduce the heavy reliance on local education property taxes.

The Commission concludes that the province should increase its share to help reduce inequities among school divisions for ratepayers and students. The province can increase its share through higher contributions from general revenues, by implementing a provincial property tax or a combination of both. All three options present an opportunity to better equalize the financial resources available and support fiscal equity among school boards.

Kitchen, Harry and Auld, Douglas. Financing Education and Training in Canada. Canadian Tax Paper No. 99. Chapter 3. (Canadian Tax Foundation, 1995)

Every student should have access to a comparable level of education, regardless of the local wealth base.

Anderson, John E. and National Tax Association. Fiscal Equalization for State and Local Government Finance – Reducing Reliance on the Property Tax in School Finance. (United States: Greenwood Publishing Group, 1994.)

Ontario Fair Tax Commission. Fair Taxation in a Changing World: Report of the Ontario Fair Tax Commission (Toronto: University of Toronto Press, 1993)

Ibid. p. 86. The Fair Tax Commission's definition of basic fairness for taxpayers was "... this means fairness for taxpayers whose burden should be more closely related to the ability to pay." And for students "... it means fairness for all students whose learning should not be compromised by accidents of geography, socio-economic status, or ethnocultural origin."

Odden, Allan and Clune, William H. School Finance Systems: Aging Structures in Need of Renovation. Educational Evaluation and Policy Analysis Vol. 20, No. 3. (Fall 1998)

"Rural people believe that their children are entitled to the same level of education as the children living in the large urban centres. We realize that not all the same programs can be delivered in the small centres, but our children are entitled to receive at least the necessities."

Brief on behalf of the residents of the Town of Eastend

Assertion #4 – "The education financing system creates inequities among school divisions."

The cost of K-12 education is currently shared between the province and local school divisions. The provincial share is distributed based on each school division's ability to pay, measured by assessment per student. Some boards have very high assessments per student; others have very low assessments per student. Some boards spend much more per student than others. Some school divisions have much higher mill rates than others. There are currently 18 school boards that receive no provincial funding. These are factors that contribute to the general feeling that the current system is causing inequities among school divisions.

What have we heard?

The importance of equal education opportunities for all students, no matter where they live, was stated at every public meeting and mentioned in most briefs submitted to the Commission. This principle, combined with the idea of education as a broad social good was cited as evidence that the province must equalize opportunities available to all students through a greater provincial share.

We heard that it is not equitable for ratepayers of one school division to pay extraordinarily high property tax relative to their neighbours because of a large population of high risk children, higher transportation costs or other demographic and socio-economic factors. We also heard the unevenness in tax rates due to the relative size of a school division's property tax base is inequitable.

Overall, the majority of respondents (59%) to our September 2003 poll agreed that the property tax system works so that people with similar properties pay similar amounts of tax.

Agreement declined to 44% for those living on farms, with 49% disagreeing that the property tax system works so people with similar properties pay similar amounts of tax.

What have we found?

Equity can be defined a number of ways. It can mean "dealing fairly and equally with all concerned"[40] or being "fair and reasonable; treating everyone in the same way". A more comprehensive view is expressed in terms of equity of circumstance or opportunity. In his report[41] to the Agricultural Producers Association of Saskatchewan, Dr. Gerry Paquette referred to Aristotle's definition of two basic dimensions to equity or fairness: treating equals equally on one-hand and treating unequals unequally on the other. These dimensions are not as contradictory as they may first appear.

Students should have access to the same quality of education regardless of the socio-economic status of their family or community, and without regard to their race, health status, ethnicity, learning style or other characteristics. If high-risk students are treated the same as others, they may not achieve comparable results. They may need supportive and specialized programming to achieve the same standard of educational performance. Treating all students the same will not achieve equity.

We currently have province-wide information on education process variables and key student achievement measures.[42] It provides useful context; however, this information is not available for all individual school divisions, so we have limited ability to put "science" around the question of equity for all students in Saskatchewan.

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[40] *Merriam-Webster's Online Dictionary, 10th ed. (Merriam-Webster, Incorporated, 2003)*

[41] *Paquette J. E. Interdivisional Fiscal Equity in Saskatchewan 1985 – 2000: An Analysis of Spending Equity and Wealth Neutrality. Prepared for the Agricultural Producers Association of Saskatchewan. (Regina, 2003)*

[42] *For system context, process and outcome indicators, please see Saskatchewan Education Indicators, Kindergarten to Grade 12: 2002. Saskatchewan Learning. (Regina, 2003)*

The literature generally agrees that the theory for measuring student equity should look at:

1. horizontal equity (treating equals equally)
2. vertical equity (treating unequals unequally)
3. fiscal neutrality (resources available for educating students shouldn't vary with the amount of money each school division can raise)

There are limits to the information and to some of the methods we can use to determine equity for students, but we have been able to look at a few things.

Paquette[43] analyzed school division data for 1985 to 2000 looking primarily at spending and assessment per student. While there were data limitations, he concluded that overall spending differences were quite high across all Saskatchewan school divisions together. There are more differences in spending per student among non-rural school divisions than among rural school divisions, especially when transportation and tuition expenditures are excluded. Rural school divisions tended to spend more per student than non-rural school divisions, mainly as a result of transportation and tuition expenditures.

In the context of the relationship of spending per student and assessment per student, it seems, for the province overall, that assessment per student has a slightly negative correlation to per student spending. In other words, spending per student slightly decreases as assessment per student goes up.

When Paquette compared rural and non-rural school divisions, a different pattern was evident. Rural school divisions tend to spend more per student as assessment per student increases. Non-rural school divisions tend to spend less as assessment per student increases.

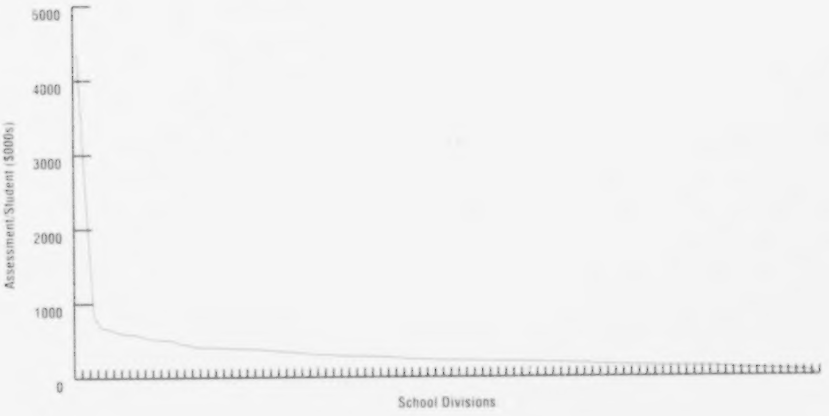
In evaluating equity for ratepayers we first looked at the variability in school divisions' "ability to pay" measured by the amount of assessment per student. We then looked at the tax rate or mill rate by school board. Third, we looked at the impact on the "tax bill" for ratepayers among school divisions. Finally, we looked at the "zero grant board" phenomenon.

School division "ability to pay"

A commonly used measure of a local board of education's ability to fund education costs through property tax is the amount of taxable assessment the board can access for each student in the division.

> *"…we believe there is a vital need to ensure that all students, regardless of location, have the resources made available to serve educational functions crucial to maintaining our strong education system."*
>
> **Agricultural Producers Association of Saskatchewan**

Figure 2A – 2003 Assessment/Student



Data source: Saskatchewan Learning

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[43] Paquette J. E. Interdivisional Fiscal Equity in Saskatchewan 1985 – 2000: An Analysis of Spending Equity and Wealth Neutrality. Prepared for the Agricultural Producers Association of Saskatchewan. (Regina: 2003)

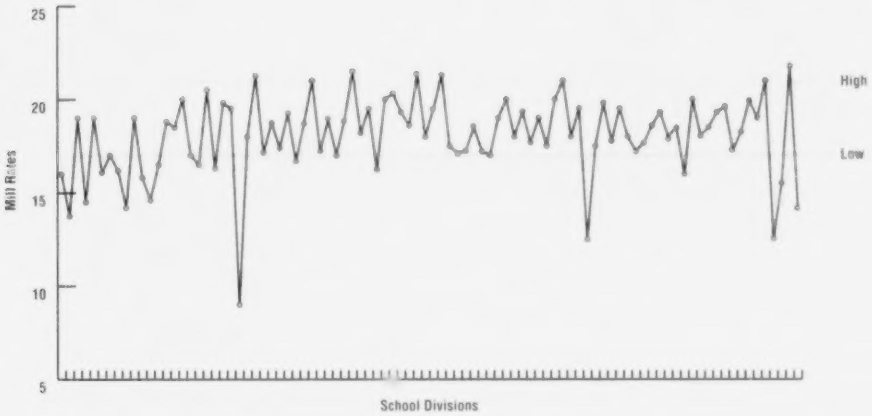
Figure 24 shows the 2003 assessment per student by Saskatchewan school board, highest to lowest. Assessment per student varies from a high of $4.4 million per student to a low of $26,458 per student. The highest 10% have assessments per student over $500,000, while the lowest 10% have assessments per student of about $100,000 and under.

Mill rates among school divisions

The second area we looked at was the variability in property tax rates among school divisions. In Saskatchewan, "mill rate" is used to express the property tax rate. It means the rate applied to each $1,000 of assessed value.

If equity for ratepayers means that the rate of tax should not vary substantially from school division to school division, we can look at variation in mill rates. Our analysis shows consistent differences of greater than 10% among school divisions each year from 1997 to 2003. The following graph plots the 2003 mill rates with a band showing the range in which most of the mill rates should fall so that the difference may be considered equitable. For 2003, almost 34% of school divisions had mill rates outside this range.

Figure 25 – Equitable Range for Mill Rates – Deviation of + or – 10% from Provincial Weighted Average of 19.1 Mills



Data Source: Saskatchewan Learning, 2003

We also heard concern about the difference in taxes paid in different school divisions.

People viewed this as unfair, so we looked at the difference in taxes paid for the same taxable assessment among different school divisions. To illustrate this point, we've shown the difference in property tax payable on the same taxable assessment at the highest mill rate and the lowest mill rate for 2003. Although the taxable assessment for each example mill rate is the same, the ratepayer at the higher mill rate paid more than double the property taxes of the ratepayer with the lowest mill rate. The ratepayer with the highest mill rate is paying about 25% more in taxes than the provincial average for the same taxable assessment.

> *"Variation in assessment has contributed to inequity in education. No longer can it be argued that children, regardless of place of residence, have access to the same quality of services throughout the province."*
>
> **Radville and Weyburn Central School Divisions**

Figure 26 – Comparison of Highest & Lowest Mill Rates in Saskatchewan

	2003 Mill Rate*	Taxable Assessment	Property Taxes Payable
Highest mill rate	23.8	$250,000	$5,950
Lowest mill rate	9.0	$250,000	$2,250
Provincial weighted average mill rate	19.1	$250,000	$4,775
Difference in taxes due – high to low			**$3,700**

* Data Source: Saskatchewan Learning

Zero grant boards

We also heard that the zero grant board phenomenon demonstrates that there are inequities in the system.

In their joint submission to the Commission, the League of Educational Administrators, Directors and Superintendants, the Saskatchewan Association of School Business Officials and the Saskatchewan School Trustees Association[44] put forward a strong position that, "All children, regardless of where they may reside in Saskatchewan must have access to a strong academic program and services that meet their unique educational needs." They believe that there is primarily a balance in delivery of programs among school divisions. They are concerned, however, about the increasing fiscal inequity among school boards, characterized by greater differences in fiscal capacity (assessment/student) and the zero grant board phenomenon.

Under the provincial operating grant formula, zero grant boards generate more revenue at the equalization rate[45] than they require for the level of expenditures recognized by the grant formula. Though these boards generate more than they need under the grant, the province has decided not to recover these excess revenues. For 2003, the province expects this excess to be more than $18 million.[46] If the operating grant is truly designed to equalize all revenue available for K-12 education in the province, then this excess revenue should be distributed as well.

Zero grant boards also demonstrate inequity in the system when we look at actual average mill rates charged by boards of education. The weighted average mill rate for zero grant boards was 1.5 mills or nearly 8% lower than the weighted average mill rate for all boards in the province.[47]

Conclusion

We were unable to prove inequity of student opportunities exists among school divisions, since comparative and relevant information on student outcomes is not available by school division. Differences in expenditures per student are not enough to prove inequity. School divisions will have differences in expenditure depending on demographics and geography, the socio-economic and health status of their students, and decisions made by their boards of education.

There are, however, inequities among ratepayers in different school divisions:

- The difference in assessment per student is very large.
- The difference in mill rates is significant.
- There are 18 school boards that do not receive a provincial grant; their weighted average mill rate is still less than the provincial average.
- People do pay more in school property taxes on the same value of property just because of where they live.

> *"All children, regardless of where they may reside in Saskatchewan must have access to a strong academic program and services that meet their unique educational needs."*
>
> **League of Educational Administrators, Directors and Superintendants Saskatchewan Association of School Business Officials, and Saskatchewan School Trustees Association**

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[44] League of Educational Administrators, Directors and Superintendents (LEADS), Saskatchewan Association of School Business Officials (SASBO), Saskatchewan School Trustees Association (SSTA)

[45] The equalization rate is a standard rate applied to the assessment of all school divisions for provincial grant calculation purposes.

[46] Saskatchewan Learning 2003

[47] Saskatchewan Learning, Unpublished 2003 School Division Mill Rates

Assertion #5 – "The property tax and assessment systems are not working."

The "property tax system" consists mainly of two components. The first is the establishment of the tax base. This is done through valuing or assessing property and then adjusting the value through policies like exemptions, percentages of property value and others. The second component is the establishment of the tax or mill rate to be applied to the tax base. Factors such as local government budget requirements and application of local tax tools, like mill rate factors, come into play with this component.

What have we heard?

The Commission heard that the property tax system is not working. This is based in part on feelings that the burden among different classes of property – residential, seasonal, commercial and agricultural – is unequal.

Seasonal cottage owners expressed concern with property taxation on resort properties. They pay taxes on two properties, but can't send their children to school, vote for their representatives, or act as trustees in the school division where they own a cottage. They also expressed concerns with the percentage of value applied to seasonal properties. They feel that 70% of value is too high and believe it should be set at 55%, the rate applied to arable land.

Residents adjacent to federal and provincial parks were concerned about the unequal treatment of those owning properties in these parks, because they are not subject to education property tax.

The commercial sector is also concerned about property taxes and the impact they have on business. The Canadian Federation of Independent Business shared a 1995 research paper that analyzed property tax systems across Canada from the perspective of the business sector. CFIB[45] also surveyed its members on property tax issues and cited the following inequities:

1. Business taxation far exceeds residential taxation in every province.
2. Variations in tax loads among businesses are huge, even among similar types of firms in the same municipality.

The Regina and District Chamber of Commerce spoke to those same issues. It pointed out that the provincial percentage of value and the local government mill rate factors have a significant impact. For example, property taxes in Regina for a commercial property are 93% higher than a residential property at the same fair value assessment.

Those in rural areas were also vocal about the inequities in the system. We heard often from individuals, RM councils and school boards that rural taxpayers contribute more to the cost of education than what they consider to be fair.

Municipal government representatives expressed concern with their responsibility for collecting education property tax. They felt it was unreasonable to be criticized by the public for the large increases in the education portion of the property tax when they are only collecting it on behalf of the school division.

Concerns with the current property assessment system also came up over and over. These concerns included:

- the imprecision of the assessment method
- the wide swings in assessment from one reassessment year to another
- significant instability in tax levies and local revenue due to the time frame between assessments

> *"The common complaint to this office with respect to resort properties is they already pay for one residence elsewhere. These taxpayers do not even have the right to vote on school issues because they do not live in this municipality. This same rule applies to the rural sector if property was owned elsewhere. That is unfair."*
>
> **RM of Hoodoo**

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[45] *Mallett, Ted and Botting Dale. Silent Killer: The Impact of Local Property Taxation on Saskatchewan's Small and Medium-sized Businesses. Canadian Federation of Independent Business Research. (Saskatchewan, 1995)*

- changes in the way property is assessed and the resulting assessment appeals

What have we found?

The current property taxation system in Saskatchewan has three major participants – the Saskatchewan Assessment Management Agency (SAMA), the provincial government, and local governments (municipalities and school divisions) – each with specific roles and responsibilities.

SAMA is an independent agency established by legislation that sets out the rules and principles used in determining property assessment values. SAMA also carries out assessment valuations for municipalities, except for the larger cities and other municipalities that have opted to conduct their own valuations. Property values used in determining municipal and school division property taxes are updated every four years. The latest revaluation was implemented in 2001, reflecting property values as of June 1998. The next revaluation is scheduled for 2005.

The province determines the broad-based property classes (e.g., residential, agricultural, commercial and industrial) and the percentages of value to apply to those property classes. The percentages of value are applied to fair value assessments, resulting in the taxable assessments for each property. The province gives municipalities discretion to use a variety of tax tools to cushion tax shifts and set local property tax policy. These tools include local mill rate factors, base tax, minimum tax, tax or assessment phase-in and property tax exemptions.

Municipal governments, boards of education and, in some cases, library boards are the final participants in the property tax system. They use the fair value assessments provided by SAMA, combined with the property classes and percentages of value set by the province, to establish mill rates based on their budget needs and calculate the tax owing by each property owner. Municipalities also have the option of applying tax tools to address local circumstances and make decisions to shift the impact of reassessment among and within property classes. Cities also have the authority to set up property subclasses within these classes.

Assessment impacts

We heard at virtually every meeting that assessment was a major concern. We heard that the 1997 and 2001 reassessments had a significant impact on rural Saskatchewan. The general feeling in rural areas is that the move to market value assessment shifted the tax burden away from the business community and onto agricultural and residential classes of property.

Paquette's study for APAS concluded that assessed property value for all types of municipalities increased by 368% from 1985 to 2000. Virtually all of this growth was a result of the shift to market-value assessment in 1997. The largest increase in assessment was 493% in rural municipalities, with the next largest increase in northern municipalities at 352%. Cities also experienced an increase of over 300%.

Figure 27 outlines the changes in taxable assessment for education from 1997 to 2001.

The change in the reassessment year (2001) is large relative to the non-reassessment years, and quite uneven among property classes. The change from 1997 to 2001 is less pronounced than the change from 1985 to 2000 noted in the paragraph above. This is because the most significant change occurred between 1996 and 1997, and this is not part of Figure 27.

"Our members tell us that lack of transparency and predictability of property assessment negatively affect investment decisions. Investors making long term capital investment decisions need to know what the property tax burden is likely to be for the long term.

Saskatchewan Chamber of Commerce, Finance Committee

Figure 27 – Changes in Education Taxable Assessment – 1997 to 2001

Property Class	1997* $Ms	2000 $Ms	% Change In Txble Assess 97-00	2001* $Ms	% Change In Txble Assess 00-01
Agricultural	8,826	8,794	-0.4%	9,244	5.1%
Residential [1]	12,725	13,455	5.7%	15,362	14.2%
Seasonal residential	420	436	3.8%	538	23.4%
Commercial/industrial [2]	9,500	9,457	-0.5%	10,873	15.0%
TOTAL	**31,471**	**32,142**	**2.1%**	**36,017**	**12.1%**

Data Source: GRAA School Mill Rate Survey Results 1997 to 2001

** Reassessment Years*

1) Includes Residential Condo and Multi-Unit Residential

2) Includes Business Tax

"SAMA has created a complex style of assessing all property which no one seems to understand. This complex method has created turmoil within the agency and has caused some of our best assessors to leave the province."

Vern Schaab, Unity

For the next reassessment in 2005, SAMA will return to a productivity-based model for agricultural property. We understand this change will not reduce overall provincial assessment on agricultural land, but will shift the assessment among agricultural properties primarily from the west side of the province to the east. In addition, we understand that the estimated increase in assessment for non-arable agriculture land will be roughly 42%.

Provincial tax policy impacts

One significant area of provincial property tax policy is establishing percentage of value. The current percentages of value are summarized in Figure 28. Percentages of value are established to make sure the provincial social and economic objectives are considered in the taxable value of the property.

Figure 29 presents an example of the impact percentage of value can have on effective mill rates using an assessed value of $100,000 and a uniform mill rate of 10 mills. This example does not consider that property taxes for agriculture land and commercial/industrial (including elevators, pipelines and railways) are a deductible expense for income tax purposes. This would further reduce the effective mill rate when enough taxable income is earned.

Figure 28 – Provincial Percentage of Value

Provincial Property Tax Classes	Percentage of Value
Non arable (range) land	50%
Other agricultural land and improvements	55%
Residential land and improvements	70%
Commercial/industrial land and improvements	100%
Other industrial land and improvements (elevator, pipeline, railway)	75%

Source: Government Relations and Aboriginal Affairs, 2003

The productivity model bases agricultural land valuations on the characteristics of the soil and its ability to produce crops. This model is less reliant on land sales. It is also less influenced by local market conditions such as proximity to oil and gas activity or cities, which tend to inflate market prices.

Figure 29 – Impact of Percentage of Value on Effective Mill Rates

	Assessment	Percentage of Value	Taxable Assessment	Uniform Mill Rate	Tax Levy	Effective Mill Rate
Non-arable (range) land	100,000	50%	50,000	10	500	5
Other agricultural land	100,000	55%	55,000	10	550	5.5
Residential land	100,000	70%	70,000	10	700	7
Commercial/industrial land	100,000	100%	100,000	10	1,000	10
Elevators, pipelines and railways	100,000	75%	75,000	10	750	7.5

Another provincial or statutory tax policy area is exemption of certain lands and improvements from taxable assessment. One significant exemption is that of agricultural residences and buildings. This exemption reduces the effective tax rate for this class of property.

To illustrate this impact we looked at the taxable assessment and levies from the 2002 Mill Rate Survey done by Government Relations and Aboriginal Affairs. Table 20 in the Schedule of Tables provides the detailed methodology we used to estimate the change in effective tax rate by including agriculture residences and buildings. Including these exempted buildings in the assessment, grossed up to remove the percentage of value impact, results in an estimated reduction of more than 2.0 mills in the effective mill rate.

Seasonal property and crown land

We also heard two specific concerns on property tax policy - property taxation and rights of representation for cottage owners, and education property tax in national and provincial parks.

Eligibility to vote or stand as a candidate for boards of education is based on where you live, not where you own property. All adults living within the boundaries of a school division can vote or stand for election regardless of whether they own property. This ensures that those trustees elected to the board of education represent the interests of the local community and are not focused on minimizing property tax for non-resident owners to the exclusion of education programming in the community.

This issue is not unique to cottage owners. Many agriculture and commercial industrial property owners are taxed on property in multiple school divisions. They are entitled to participate in board elections only in the division where they reside.

National parks are crown lands under federal jurisdiction. The provincial government has no authority to charge taxes or fees on federal crown land. National parks are also outside the boundaries of school divisions and anyone living in national parks is not considered a resident of a school division. School divisions are entitled to charge tuition fees for education programs and services for students who live within the boundaries of national parks and receive services in the school division.

School divisions adjacent to provincial parks are required to provide education programs and services to the children residing in the park and receive a provincial grant for these children, just like any other student in the school division. Permanent residents and businesses inside provincial parks, however, do not pay education property taxes.

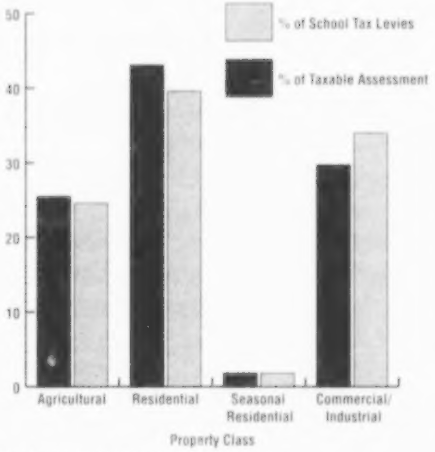
Local governments tax policy impacts

Municipalities have been given authority to use a variety of tax tools at their discretion to cushion tax shifts and set local property tax policy. These tools include local mill rate factors, base tax, minimum tax, tax/assessment phase in and some types of property tax exemptions. School divisions may agree to participate in these tax tools provided the end result is no change to the overall taxes levied.

> *"… the majority of the cottage owners have principal residence in other communities throughout the province where they also pay school taxes. In Saskatchewan we have a situation where if you want to spend your vacation/ recreation time at home, you pay a penalty or fine, in the form of school taxes to do so."*
>
> **Resort Village of Candle Lake**

What might some of the impacts of these tax tools be? If the education property tax burden is distributed as intended by the provincial percentages of value, then the taxable assessment in each class should be consistent with the percentage each class represents in tax levy. As reflected in our interim report, this was not the case in 1997 nor was it in 2001. The results of the 2002 Mill Rate Survey,[60] summarized in Figure 30 shows that agricultural and residential properties still pay proportionately less in total levies relative to their taxable assessment while commercial properties pay more. The levies for seasonal residential properties were proportionately equal to their taxable assessment.

Figure 30 – % Distribution Taxable Assessment and School Tax Levy



Data Source: GRAA 2002 Mill Rate Survey

[illegible]

Canadian Association of Petroleum Producers – recommendations to the Commission

Taxable assessment includes adjustments for percentages of value and provincial exemptions. Therefore, the difference between percentage of taxable assessment and school tax levy is likely a result of modifications at the local government level. One such modification would be mill rate factors. A mill rate factor is an adjustment that either increases or decreases the mill rate based on the specific intent of the local government. For example in 2001, Saskatoon applied a mill rate factor of 1.367 to commercial industrial property and 0.824 to residential property[61]. While the boards of education had a uniform mill rate that year of 17.22, commercial industrial properties would have paid an effective mill rate of 23.54 mills (17.22 x 1.367) and residential properties would have paid an effective mill rate of 14.19 mills (17.22 x .824).

Figure 31 summarizes the average mill rate factors by property class for 2002. Property classes with factors in excess of 1.0 pay more than the uniform mill rate; classes with factors below 1.0 pay less than the uniform mill rate. Across the province on average, multi-unit residential, seasonal residential and commercial/industrial properties pay more than the uniform mill rate. Agricultural, residential, and residential condominium properties pay less than the uniform mill rate. Figure 32 estimates how much the school taxes would shift among property classes if mill rate factor authority were removed. The largest shift would be from commercial and industrial properties to residential properties.

Figure 31 – 2002 Average Mill Rate Factor by Property Class

	Property Class					
	Agriculture	Residential	Residential Condominium	Multi-Unit Residential	Seasonal Residential	Commercial & Industrial
Overall average	.944	.914	.806	1.195	1.127	1.370

Data Source: Government Relations and Aboriginal Affairs, 2003

Figure 32 – 2002 Projected Change in School Taxes with Mill Rate Authority Removed

	Property Class					
	Agriculture	Residential	Residential Condominium	Multi-Unit Residential	Seasonal Residential	Commercial & Industrial
Total	$6.1M	$26.7M	$2.3M	($4.8M)	($.28M)	($30.1M)

Data Source: Government Relations and Aboriginal Affairs, 2003

[60] *Data Source: 2002 School Mill Rate Survey, Government Relations and Aboriginal Affairs*

[61] *Data Source: Government Relations and Aboriginal Affairs, 2002*

Conclusion

The issue of assessment and property tax policy is not specifically part of the mandate of the Commission. However, it came up at every meeting, and was mentioned in nearly all written submissions. We felt we must address it in a cursory manner to determine what area government needs to examine to deal with the concerns we heard.

Overall, the property tax policies and assessment system are best characterized as holding high ideals, but are subject to instability and a number of inconsistencies:

- The overall system is complex and difficult to understand. Two levels of government and an independent agency, all with different roles, are involved in setting and implementing property tax and assessment policy.
- Changes in assessment since 1996 have caused large and uneven shifts in the property tax base. These shifts perpetuate feelings of inequity of tax burden and reduce the stability and predictability of annual property tax revenues.
- Provincial property tax policies on differing percentage of value among property classes and exemptions impact the effective tax rate by property class. If the reason for this variability is to be understood by the public, the province needs to be clear on its intended social and economic objectives for each property class.
- Local implementation of tax tools, particularly mill rate factors, impacts equity for ratepayers, especially for owners of commercial and industrial properties.
- Governments have tried to mitigate or phase in changes in assessment and tax policy in some instances, but not in others. For example, the residents of Corman Park indicated that the reclassification of acreage property from agricultural to residential more than doubled property taxes in one year.
- Seasonal cottage owners are treated the same as other "non-resident" property owners with respect to their rights to representation in the school division where their non-resident property is located.
- The current arrangement of tuition fee payment for national park students instead of education property tax appears to be reasonable since it does not impact unfairly on school division ratepayers.
- Education property taxation policy for residents of provincial parks does have an inequitable impact on school division ratepayers.

Given the current assessment system, we were unable to conclude that one property class was treated more or less fairly than another. However, comparing classes reveals significant differences in taxation levels, taxation rates and changes in taxation over time.

Given the current assessment system, we were unable to conclude that one property class was treated more or less fairly than another. However, comparing classes reveals significant differences in taxation levels, taxation rates and changes in taxation over time.

Assertion #6 – "School board autonomy is an important issue."

We have heard that it is important to maintain autonomy for boards of education. In this context most people would define autonomy primarily as a board's ability to raise its own revenue. But how much capacity do they need to maintain reasonable autonomy?

What have we heard?

Many people stressed the importance of maintaining some local autonomy to provide flexibility and make sure local priorities are met. About 60% of respondents to our September 2003 poll agreed that school boards need to be able to raise money from local taxes to pay for local priorities.

We also heard that if the province increases its share of the cost of education, it must ensure there is an equal reduction in funds required from local taxes. Increased accountability should be expected from both school boards and the province.

While the majority of respondents to our poll supported local taxation by school boards, a much higher majority (79%) supported restrictions on school board expenditures.

"Although urban boards were of the view that provincial funding must increase, they recommend autonomy with local access to the property tax base continue based on principles of responsibility, subsidiarity, representation and accountability."

Urban Public Boards Caucus

What have we found?

Section 93 of the Constitution Act, 1867 charges provincial governments with the responsibility for all aspects of education in the province.

In Saskatchewan, *The Education Act, 1995* provides the framework for carrying out this responsibility. In general, the government and the Minister of Learning are responsible for areas that are provincial matters and/or require common standards or practices. Curriculum, building standards, teacher certification, grant distribution, and regulation of independent schools and home-based education are examples. School boards are responsible for delivery of education programs in their own school division. Examples are attendance areas for schools, student transportation, hiring of teachers and other staff, determining what schools to operate and setting a mill rate that will raise sufficient taxes to pay for the local share of costs in their division.

There are benefits to funding education locally. It respects a community's ability to determine the level and type of education programs delivered locally. The community and the ratepayers hold the school division accountable for decisions about things like school closures. Some would argue that since the local community is the next most critical unit in society outside the family, education needs to remain at that level.

Provincial governments recognize that local governance of education has prevented operating decisions, such as school closures, bussing routes, staffing and student discipline,from becoming issues for the province to manage. Local governance also provides an opportunity for solutions to mirror the needs and interests of the local community – something that is hard to achieve with a centralized governance model.

In most other provinces, boards of education have very restricted ability or no authority at all to raise revenue through property taxes. In Alberta, for example, school boards do not have taxation authority except to raise an additional 3% of their budget through a plebiscite. No plebiscite has been successful to date. Alberta's Commission on Learning recently recommended returning limited property taxation authority to all school divisions so they are better able to support local priorities and strengthen connections between the communities and themselves. The Alberta government has rejected this recommendation.

Lawton, Stephen B. Financing Canadian Education. (Toronto: Canadian Education Association, 1996)

Separate school boards (16) still have the right to local taxation.

Alberta Commission on Learning. Every Child Learns. Every Child Succeeds. Report and Recommendations. (Alberta, 2003)

Langlois and Schart described how boards of education exercise this local autonomy by making decisions in some mandated areas and keeping the right to establish spending levels at the school division level. They viewed having the authority to raise revenue as necessary to maintain local autonomy. They did not agree that it was possible to have an effective local government responsible for education without its own major revenue source.

The report concluded that taxpayer equity could improve with more progressive taxation policies, but Langlois and Schart did not find a "right" level of provincial support for K-12 education. They believed the focus of the debate needed to go beyond the appropriate share of financial responsibility to the right level of resources to produce the right outcomes with increased accountability to the elector by both boards of education and the province.

The Canada West Foundation interviewed local and provincial government officials in six major western Canadian cities in May and July 2002 to explore relations between municipalities and school boards. The resulting discussion paper pointed out that provincial control of education property tax may solve discrepancies between rich and poor school districts, but not without a cost. Respondents to their survey had two major issues.

First, they believed it was unfair for local property tax from one school division to be used to subsidize another. Second was the substantial loss in autonomy for boards of education. When they lose virtually all local taxation power they must rely on provincial funding for programs and services. If unsuccessful in lobbying the province for money they need, they are forced to make program and service decisions, such as school closures, they might not make if they could raise the money locally.

The Saskatchewan Association of School Business Officers (SASBO) Committee on the Foundation Operating Grant provided the Commission with a discussion paper that spoke, in part, to the issue of autonomy. They "loosely" defined school division autonomy as the extent to which the power to make decisions rests with the school board. The province determines curriculum and teacher qualifications. Teachers' salaries, the largest part of a school board budget, are negotiated provincially. Other decisions – school closures and pupil teacher ratios, for example – are largely determined by the amount of the grant received and the amount local ratepayers "agree" can be raised through the local tax base. They concluded that boards of education really do not have a great deal of fiscal autonomy. Local autonomy is restricted to setting priorities for how much is spent on required programs.

In their joint brief to the Commission, LEADS, SASBO and the SSTA indicated that an increase in the provincial share of funding beyond a certain level would impact school boards' spending autonomy. They believe that 60% provincial funding would be appropriate.

Boards of education have the authority to set expenditure levels based on the amount of grant they receive and the amount of property tax they can raise. When the province provides increased funding to the boards, they can use this to increase expenditures, decrease local property tax, or both. We heard concerns that an increase in provincial funding will result in an increase in school board expenditures, effectively increasing taxes overall.

If the province provides increased funding to boards of education for property tax relief, they, along with municipal governments might feel free to increase their mill rates. There is some U.S.A. based evidence that increased grants to municipalities or school districts has caused increased spending by both. While the cost of education continues to be primarily financed through property tax, from 1997 to 2002, provincial grants increased 31%, while tax levies increased 21%. Inflation increased 12% and enrolments declined by 8% over this period.

[illegible]

RM of Miry Creek

Langlois, Herve O. and Schart, Murray P. School Finance and Governance Review. Final Report. (Saskatchewan, 1991)

Jones, Evan. Urban Education: Exploring the Relationship Between School Boards and Municipalities. (Alberta: Canada West Foundation, 2002)

Fisher, Ronald C. and Papke, Leslie E. Local Government Responses to Education Grant. National Tax Journal. Vol 53, No. 1 2000.

1997 was chosen because pre-1997 mill rates are not comparable.

Figure [illegible] – Changes in [illegible] School Board [illegible] – 1997 to 2002

	1997	2002	% Increase or (Decrease)
Enrolments	192,446	177,575	(8%)
Provincial grants ($M)	370.2	483.5	31%
Levies ($M)	547.7	663.4	21%
Mill rates	17.1	18.5	8%
Assessment ($B)	31.5	36.2	15%
Consumer price index (Sask)			12%

In their joint brief to the Commission, LEADS, SASBO and the SSTA advised that "public support for education property taxes is best maintained by retaining authority for tax rates in the hands of a provincial authority of trustees."

Conclusion

We heard that local autonomy primarily means a school division having ability to raise its own revenue. We know that local autonomy is a complex mix of:

- meaningful decision-making, which responds to the needs of the community
- fiscal autonomy to provide funding for local education program priorities and to maintain operational flexibility.

Too high a level of local taxation authority contributes to inequity. Boards of education, however, need the flexibility provided by some taxation authority, since a network of school boards is the best mechanism to deliver education programs and services effectively to students in their community.

Therefore, the Commission concludes that fiscal autonomy is an important component of the education system in Saskatchewan. Some level of local revenue generating capability is important to provide school divisions with flexibility to meet local needs.

Assertion #7 – "The Foundation Operating Grant is not working."

The Foundation Operating Grant is a program the province uses to distribute provincial funding to school boards. All of these funds come from general revenues. Many people told the Commission that the program is not distributing the funds fairly.

What have we heard?

We heard that the way the current provincial funding is distributed is flawed:

- Some school boards are not receiving a grant, so something must be wrong with the system.
- The basic rates used for recognized expenditures are different for rural and urban boards.
- The expenditure amounts recognized in the formula don't represent actual school board expenditures.
- The heavy reliance on assessment to equalize the relative wealth of school boards creates substantial changes to the grant in years of reassessment. This causes instability in the system.
- The grant program has become too complex and difficult to understand.
- The grant program must respond better to individual school board needs.
- The system was sound but "tinkering" with the system over the years has caused some unfair distribution among school boards.

Despite this, many said that the current equalizing formula is still the best method to distribute provincial funding.

What have we found?

Distribution of provincial funding[59] can be a combination of general and/or special purpose funding, with an equalizing or non-equalizing relationship to local taxation ability, and tied to some measurement of education need in the form of cost per unit or percentage of local expenditures.

Traditional provincial grant programs can be flat grant programs, foundation grant programs, percentage equalization grant programs or resource cost model programs. In reality, many state and provincial grant programs combine elements of more than one program with varying degrees of complexity.

A variety of distribution formulas are used across Canada and the United States. All have their relative merits, and governing bodies continually strive to improve the effectiveness of these formulas.

Provincial funding for K-12 education in Saskatchewan is distributed through the Foundation Operating Grant formula. A Foundation Operating Grant External Reference Committee was established in 1999 to examine policy and program issues identified by either the Department of Learning, or the partner organizations. The Committee consists of representatives of SASBO, SSTA, STF, LEADS and Saskatchewan Learning.

The majority of the funding under the program is general, or unconditional. The recognized expenditures are based primarily on student characteristics (number of enrolments, number of children with special needs, etc.), and the program has an equalizing objective relative to school board ability to generate revenue from the property tax base.

The grant formula takes into account the costs of providing education services and a school division's ability to pay.[60] It is intended to mitigate the variability in ability to raise revenue. As enrolments increase, the level of recognized expenditures will increase and the grant may increase. The opposite is true as enrolments decrease.

[illegible]

Eastend School Division

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[59] *Lawton, Stephen B. Financing Canadian Education. (Toronto: Canadian Education Association, 1996)*

[60] *We are grateful to Saskatchewan Learning for providing this background on the grant program.*

The ability of a school division to raise revenue locally, or its relative ability to pay, is measured by its property tax assessment base multiplied by a provincially determined equalization factor. When a school division's fiscal capacity increases as a result of an increase in assessment, its grant will be lower. Again, the opposite is also true.

Two trends have come together in the last few years to reduce the operating grant's ability to equalize student opportunities and ratepayer effort. The first is the growth in the value of assessment in some school divisions partially because of the 1997 reassessment and partially because of the growth in the resource sector. This resulted in very high recognized revenues for these divisions.

The second trend is declining enrolments, which results in lower recognized expenditures.

The relatively new phenomenon of zero grant school boards illustrates this. These are school divisions in which recognized revenues exceed recognized expenditures in the operating grant formula. They are in fact able to generate more revenue at the equalization rate than they require to cover the recognized expenditures for their students.

Under the current operating grant formula, these school divisions do not receive any provincial grant.

This situation has affected the operating grant for a number of years. Until recently it was limited to one or two very small rural school divisions. The government decided to allow the grant to be zero with no penalty or recovery from the school division for excess local tax revenues.

The 1997 reassessment created the first major school division with a negative calculation even though a temporary reassessment cap was put in place. Without that cap, 14 school divisions would have had zero grants with total excess local revenues of $7 million. For 2003, it is expected that 18 school boards will receive no grant from the province. These 18 boards will have potential for excess local revenues of approximately $18.5 million.

Some argue that these excess local revenues should be available to all of the K-12 education sector so that ratepayer burden and educational opportunity can be properly equalized across the province.

Within the Foundation Operating Grant, recognized expenditures range from basic rates, to funding for special needs, shared services, community schools, SchoolPLUS implementation, transportation and technology, to recognition of northern, francophone, isolated schools and enrolment decline factors, among others. Most of the recognition is on a per student basis and most of the funding is unconditional. Boards of education can spend it according to local needs, subject to meeting their obligations under *The Education Act, 1995*. Basic rates are different between urban and rural boards, with rural boards receiving a higher basic rate.

A number of authors argue that while the cost components used in the formula are important, it is far more important to determine what school divisions are expected to achieve, determine costs on that basis, provide funding accordingly, and expect boards to account for their achievements.

> *"Clearly the Foundation Operating Grant has failed to uphold its original goal of ensuring equitable distribution of resources among the province's 99 school divisions. The question is: does the provincial government merely need to increase its contributions to the overall cost of K-12 education or do we need a new system to ensure equitable and fair distribution of resources and a fair and equitable burden on taxpayers?"*
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> **CUPE Education Workers Steering Committee**

Saskatchewan Learning 2003

Reschovsky, A. and Imazeki, J. The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students. Developments in School Finance, 1997. Does Money Matter (September 24, 2003). Odden, Allen and Clune, William H. School Finance Systems: Aging Structures in Need of Renovation. Education Evaluation and Policy Analysis Vol 20, No. 3, (Fall 1998). Fisher, Ronald C. and Papke, Leslie E. Local Government Responses to Education Grant. National Tax Journal. Vol. 53, No. 1, (March, 2000)

Reschovsky and Wiseman argue that perhaps the foundation program is a good method to ensure an appropriate level of spending per student, encourage cost controls and provide property tax relief. This assumes cost differences and differences in ability to raise local revenue among school districts can be captured and incorporated into the formula. They caution, however, that "... school finance innovation without performance standards and procedural reforms makes little sense as a method of making schools better. We may have good reason to make them better, but we should not try to do both with the same policy tool."

Conclusion

The current grant program goal of providing an equalization mechanism to distribute the provincial grant is sound. A number of improvements are needed to achieve greater simplicity, transparency and cost validation.

The components of the grant need to be examined with a view to updating, reducing and/or simplifying the factors used in the formula. Recognized costs under the program need to be rigorously examined in the context of expectations, outcomes, and validation of program costs at the school division level. If the results of this examination were to be shared widely, both with school boards and the public, this may alleviate some concerns that the formula does not address the actual cost at the division level. It may also reduce the perception that the system is too complex or unfair.

> *"There must be a recognition in the grant formula which places PROGRAM at the front and centre of our financial deliberations."*
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> **Radville School Division and Weyburn Central School Division**

Anderson, John E. and National Tax Association. *Fiscal Equalization for State and Local Government Finance.* Reschovsky, A. & Wiseman, M. *How Can States Most Effectively Meet Their School Financing Responsibilities?* (United States: Greenwood Publishing Group, 1994.)

Assertion #8 – "Expenditures need to be examined."

We heard that financing education is more than just looking at funding sources. It is also important to look at school division expenditures and how the province sets priorities for its spending.

What have we heard?

The Commission heard consistently that we should consider the size of the education expenditure "pie". People wondered whether school divisions could do more to reduce expenditures by sharing services such as bussing. Some questioned, for example, the wisdom of three buses, each half empty, going down the same street at the same time for three different school divisions. Others wondered whether we really need 99 boards of education in a province of one million people.

We frequently heard concerns about duplication in the education system caused by the multiple school systems operating in Saskatchewan. This perception was raised most often in the context of the many centres with both separate and public school systems. Comments and concerns were also expressed about further duplication with the minority language school system, the First Nations school system (not publicly funded by the province), historical high schools, associate schools, Hutterite schools, and home-based education. The issue of restructuring the education system was brought up at virtually every meeting.

On consolidation of school divisions, our poll showed a clear polarization of views with 46% agreeing and 39% disagreeing with consolidation. On average, those in urban areas tend to agree with consolidation, while those on farms tend to disagree.

People also brought up the question of what we expect schools to do, the cost, and who pays that cost. We found wide spread support for the concept of School^{PLUS}. However, we also heard concerns about expecting school divisions to support human services delivery at the community level without receiving additional provincial funding for these health, social and justice services.

We heard government needs to look at its expenditure priorities and redirect spending to reduce property tax, rather than just looking at different revenue sources.

The majority of respondents (53%) to our poll chose health care as a top priority for public expenditures. Schools were next at 24%.

What have we found?

School division expenditures

Saskatchewan school division expenditures, adjusted for inflation, were lower than those in most other provinces.

"[illegible]"

Canadian Taxpayers Federation

Figure 34 – Total Public School Expenditures Per Student (adjusted for inflation)

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD
1994/95	6,517	6,005	**5,712**	6,379	7,134	6,505	5,638	5,241	4,820	5,232
1995/96	6,563	5,883	**5,633**	6,220	6,908	6,353	5,729	4,957	4,395	5,305
1996/97	6,507	5,852	**5,564**	6,149	6,804	6,111	4,336	4,849	4,570	5,377
1997/98	6,495	6,031	**5,750**	6,205	6,738	5,832	5,870	5,108	4,608	5,229
1998/99	6,614	6,240	**5,712**	6,324	6,817	5,930	5,973	5,219	4,817	5,285
1999/00	6,673	6,217	**5,865**	6,269	6,552	6,293	6,396	5,493	5,460	5,429
2000/01	6,864	6,495	**6,051**	N/A	6,290	6,487	6,033	5,253	N/A	N/A

Source: BC Department of Education Inter-Provincial Education Statistics Project

Over the last 26 years, from 1975 to 2001, school division expenditures after inflation have increased by 40%. After 1986, the majority of the expenditures were financed by property tax (See Schedule of Tables, Table 21).

This level of expenditure increase after inflation is not unique to Saskatchewan. However, we attempted to obtain information to explain why, with declining enrolments, the sector was experiencing this level of increase in expenditures.

Number of students, number of educators and number of schools are some of the main factors that drive costs in school divisions. We were able to determine that in some types of school divisions, percentage of school closures closely mirrored the percentage of enrolment decline. In some instances, however, the number of schools actually increased as enrolment declined (See Figure 35).

Figure 35 – Change in Enrolments, Educators and Schools 1997 – 2003

School Division Type	Change in Enrolments ** 1997-2003	Change in Number of Educators *** 1997-2003	Change in Number of Schools 1997-2003
Rural	(15%)	(9%)	(13%)
Village & towns	(8%)	26%	(8%)
Francophone	14%	118%	0%
Urban public	(9%)	8%	6%
Urban RCSSD	(0%)	18%	9%
Comprehensive	(3%)	13%	(20%)
Northern	(4%)	12%	(14%)
Provincial total *	(9%)	3%	(6%)

** Does not include private and historical high schools*

*** 2003 Preliminary Enrolments*

****Number of educators includes teachers, principals, teacher-librarians, consultants, directors and superintendents*

Data Source: Saskatchewan Learning 2003

[illegible] 100 children
are now being diagnosed
with some type of learning
disability [illegible]
This requires additional
resources and training
for our educators
professionals [illegible]
[illegible] type of special
needs [illegible]
[illegible]

The Regina Catholic Schools Teachers' Association

We were unable to obtain information about the types of expenditures that contributed to the increase in costs after inflation. Some people we heard from talked about the higher expectations on the school system for programs and services outside the traditional "education" programming. They showed considerable support for these existing programs and the implementation of the School^{PLUS}[64] model. At the same time, they were quite concerned that the expectations are there, but the provincial funding is not.

Dr. Tymchak and his task force colleagues[65] identified a number of factors, which taken together represent enormous changes, challenges and opportunities for schools. They included:

- the growing number of special needs children in regular school settings
- growth in the number of school aged children of aboriginal ancestry
- poverty and the growing number of children at risk

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[64] Saskatchewan Learning. Annual Report 2002-03 (Regina:2003) 19 states that "School^{PLUS} recognizes that schools today have two primary functions: to educate children and youth, and to support human services delivery at the community level".

[65] Tymchak, M., and Saskatchewan Instructional Development & Resources Unit (SIDRU). School PLUS: A Vision for Children and Youth Toward a New School, Community and Human Service Partnership in Saskatchewan. Final Report to the Minister of Education, Government of Saskatchewan (Regina, 2001).

- movement of children between schools and school divisions throughout the school year
- the indirect impact on students of the changes in family structure
- the expectation and need for schools to work with and interact with multiple agencies like Health, Social Services and Justice
- decline in the rural population and impacts on the rural economy
- student violence, attitudes and behaviour

The Task Force on the Role of the School concluded with a proposal "... to re-create school and human service in the image of children and youth..." which would require "...a generous commitment of human and financial resources in the cause of a brighter and better future". The budget proposed to implement the task force recommendations was nearly $44 million in the first year (almost $40 million for education) and about $70 million per year for the years 2002 to 2005 (almost $53 million per year for education). These numbers seem high, but several American studies[46] argue that the average extra cost just to meet service expectations for high need and high-risk students can be up to three times the cost to provide services to the "average student".

In their joint brief to the commission, LEADS, SASBO and the SSTA voiced their commitment to the view that schools were, for the most part, the appropriate place to provide social, justice and health supports to children and their families. They are concerned, however, that these responsibilities have been transferred to school boards without the appropriate level of resources. This makes it difficult for schools to meet the increased expectations, and it results in an increased investment from the local property tax base for services that should be funded by broad based provincial revenue sources. They suggested that a thorough review of new program delivery costs needs to be undertaken to make sure funding is adequate and funded by the appropriate level of government.

Our discussions with officials at Saskatchewan Learning mirrored what we heard from the public in briefs and at the public meetings – the increased costs were due primarily to higher expectations to deliver education programs and support delivery of health, social and justice services through the school. On an annual basis, school boards provide operating budgets and audited financial statements to the Department of Learning. A lot of work has been done by school boards and the Department over the last few years to increase the comparability and the timeliness of the financial information. However, detailed and consistent school division information is not available on the costs to deliver various programs and services. We were unable to confirm the reasons for the increases after inflation or obtain information on the costs to provide health, justice or social services programs in the schools.

The North Saskatoon Business Association, Taxation Committee, in their brief to the Commission, recommended the establishment of an independent Educational Auditor's Office. This Office would be similar to that of the Provincial Auditor's Office, however with a specific mandate to audit and monitor the efficiency of the entire educational system, including the Ministry. The objective would be to continually identify and recommend improvements to the various components of the educational process. The goal of this permanent office would be to hold the various parts of the educational system accountable to an established standard and to examine the system for inefficiencies and redundancies. The stakeholders would be provided with an annual written report, resulting in greater accountability and a natural impetus for change and reform from within.

> *"There seems to be a common misconception, whether in the private, commercial, or political world, that in our quest for additional funds we must look at increasing the revenue side of the income sheet as opposed to reducing our expenditures to free up monies otherwise lost to us."*
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> **RM of Miry Creek**

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[46] *Odden Allan; Monk, David; Yasser Nabib and Picus Lawrence. The Story of the Education Dollar: No Academy Awards and No Fiscal Smoking Guns. On-line Article. See also Reschovsky, A. and Imazeki, J. The Development of School Finance Formulas to Guarantee the Provision of Adequate Education to Low-Income Students Developments in School Finance, 1997-Does Money Matter? On-line Article.*

We heard some people say government needs to reprioritize public spending in order to reduce financing of education from property taxation. Decisions about allocating provincial revenue among various provincial programs and priorities are beyond the scope of the Commission. For information purposes, however, we include two tables 22 and 23 in the Schedule of Tables, which show provincial expenditures by province for 2003 on a per capita and percentage of GDP basis. Three areas are worth noting in these tables. First, Saskatchewan's overall public expenditures are marginally higher than the Canadian average and are lower than both Manitoba and British Columbia. Second, Saskatchewan spends the highest amount of its public expenditures on health care, which is consistent with the priority indicated in our poll, and is consistent with all other provinces in Canada. Third, after health care and social services, Saskatchewan's next highest expenditure is debt service. This is basically the annual cost of the debt incurred for some of the programs and services we used in past years.

One topic that came up consistently in our discussions was the number of school boards in Saskatchewan and the need for restructuring the school divisions. This topic had two aspects – the number of different types of organizations with authority to provide education programs and services, and the absolute number of school boards in Saskatchewan. We will first discuss the aspect of education authorities in Saskatchewan.

Types of organizations delivering education programs

Public, separate and francophone school boards and historical high schools deliver publicly funded education in Saskatchewan. Under the auspices of public school boards, there are associate schools, Hutterite schools, and most home-schooled children. Outside the publicly funded provincial system, there are independent and private schools, both on-shore and offshore and on-reserve First Nations schools. The federal government funds first Nations on-reserve schools, while the independent and private schools are privately funded. Our discussion will be limited to provincial publicly funded education authorities.

It was our general feeling that the concern with the number of education authorities had to do with the cost of education and an assumed duplication of service with the multiplicity of these authorities. We looked at some of the reasons why we have these various education authorities.

The provision for minority faith education ("separate" schools) for each province was based on the circumstances in that province at the time it joined confederation. For Saskatchewan and Alberta, that meant the provisions in place through ordinances of the North-west Territories, which were later included in the *Saskatchewan Act* which now forms part of the *Constitution Act* of Canada. These provisions were intended to reflect the rights of the religious minority in a school district, Roman Catholic or Protestant, to establish, govern and operate their own school divisions. We understand that the government of Saskatchewan does not have the legal capacity to change legislation, regulations or policies in any way that would represent an infringement of those constitutional rights.

The right of minority language parents to have their children educated in a minority language comes specifically from section 23 of the Charter of Rights and Freedoms. In Saskatchewan, this minority language is French and comprises families whose first language is French. It does not include programs such as French immersion. We understand the courts have interpreted Section 23 of the Charter as meaning, where numbers warrant, francophone parents have the right to govern and operate their own schools and to receive public funds at a level that would provide an education equivalent to anglophone children in the community.

Francophone school boards in Saskatchewan were established in the early 1990s with several small boards in operation. In 1999, all the boards amalgamated into one board, the Conseil scolaire fransaskois, responsible

In 1999, all francophone school boards amalgamated into one board, the Conseil scolaire fransaskois.

for operating all francophone schools in the province. The Conseil scolaire fransaskois does not have the same right to levy taxes as the public and separate school boards, and receives its funding from the province. Francophone property owners pay their education property tax to either the public or separate school division in their community.

Number of school boards

In public meetings and briefs, we heard that reducing the number of school boards would reduce costs to the education system. Others felt that amalgamating school boards would result in a loss of responsiveness to local education needs and priorities and would not save money.

Voluntary restructuring is hampered by the significant disparity of mill rates among school divisions. There is no incentive for a low mill rate school division to voluntarily amalgamate with a high mill rate school division even if they share boundaries and it makes sense programmatically.

As of September 2003 we have more school boards than any other province in Canada. In 2001, the province announced financial incentives to encourage school divisions to voluntarily amalgamate by the October 2003 school board elections. These incentives consisted mainly of a form of provincial grant protection and assistance calculated per student to help with the transition to a new structure.

Through voluntary restructuring, it is expected that we will have about 80 school divisions by January 1, 2004. We currently have 19 school boards with enrolments under 500 students. After January 1, 2004, we will still have 15 boards with fewer than 500 students.

In the context of equity among school divisions, restructuring school boards should reduce fiscal disparities. Some school boards with huge fiscal capacity per student (like Estlin and Big Butte at $2.5 million assessment/student and $4.4 million assessment/student respectively) cannot have their excess local tax capacity equalized without:

1. amalgamation with another school board(s) with higher enrolments and/or lower assessments, or
2. provincial intervention by collecting the excess local tax capacity and redistributing it through the equalizing formula

Voluntary restructuring is hampered by the significant disparity of mill rates among school divisions. There is no incentive for a low mill rate school division to voluntarily amalgamate with a high mill rate school division even if they share boundaries and it makes sense programmatically. How would they justify the inevitable increase in mill rates to their electorate even if those mill rates were still lower than the provincial average?

Do we really believe that all children should have equal access to education in the fullest form? If we do, then let's fund it in a manner that reflects our philosophy and beliefs.

Conclusion

Overall, per pupil expenditures on K-12 education in Saskatchewan are lower than any province outside of the Atlantic provinces. However, meeting the needs of students in our modern society seems to be a challenge both programmatically and financially.

Expectations of the school system have expanded to include delivery of human services as well as education programs. Fulfilling these expectations has a cost. The province and school boards need better information on costs and expenditures particularly as they relate to programs and outcomes.

Better information is needed to:

1. help boards of education and the province effectively communicate the strength of public investment in education to the public
2. help boards of education and the province more effectively allocate resources for K-12 programs and services
3. clarify the cost associated with the management and delivery of "provincial" programs and services (health, social services, justice) through the K-12 education sector, and the provincial contribution to these programs
4. understand the financing available and the costs to deliver all K-12 education programs and services

While there was some thought that reductions to property tax could be done through reducing K-12 expenditures, sufficient and comparable school division information is not available to appropriately inform such a decision.

We know that the governance and/or delivery of publicly funded education programs is undertaken by a number of education agencies in Saskatchewan. There are constitutional and legal reasons why this is the case.

Voluntary restructuring has been successful as a first phase. We congratulate school boards and division staff who have undertaken this difficult task and have successfully restructured. Voluntary restructuring, however, is not sufficient to address school divisions with widely varying mill rates.

Expectations of the school system have expanded to include delivery of human services as well as education programs. Fulfilling these expectations has a cost.

We supplemented this feedback with a review of many sources of information on the topic of public and school finance.

Summary of conclusions

4

Summary of conclusions

Since May, the Commission has heard from many individuals and groups on the important issue of financing K-12 education. We received helpful comments and briefs on the issues in our mandate, which was to determine:

- the appropriate balance between provincial and school board contributions to K-12 education financing
- the appropriate balance between the use of property tax and other sources of taxation
- the level of fairness and equity among property classes
- impacts on students and ratepayers of the differences among school boards' ability and need to raise revenue from the local property tax base

We supplemented this feedback with a review of many sources of information on the topic of public and school finance. We used a public opinion poll on issues related to education financing to further validate what we had heard and what we had found. With this base of information, we concluded:

1. The people of Saskatchewan believe expenditures on K-12 education are an important priority.
2. Education property taxes in Saskatchewan are the highest in Canada as a percentage of total property taxes, as a percentage of GDP and on a per capita basis.
3. Education property taxes are not as fair as some other forms of taxation.
4. In Saskatchewan, the reliance on property tax to fund K-12 education should be reduced.
5. There are inequities among school divisions for ratepayers.
6. We were unable to conclude that one property class was treated more or less fairly than another. However, comparing classes reveals significant differences in taxation levels, taxation rates and changes in taxation over time.
7. The provincial government in Saskatchewan contributes a smaller percentage of funding to educational expenditures than any provincial government in Canada.
8. Per pupil expenditures on K-12 education in Saskatchewan are lower than any province outside of the Atlantic provinces.
9. Expectations of the school system have expanded to include delivery of human services as well as education programs. Fulfilling these expectations has a cost. The province and school boards need better information on costs and expenditures, particularly as they relate to programs and outcomes.
10. Fiscal autonomy is important to Saskatchewan school divisions. Some level of local autonomy is important to provide school divisions with flexibility to meet local needs.
11. The current grant program goal of providing an equalizing mechanism for the distribution of grants is appropriate. A number of improvements are needed to achieve greater simplicity, transparency and cost validation.
12. Voluntary restructuring of school divisions has been successful as a first phase. It can not, however, adequately address school divisions with widely varying mill rates.
13. The property tax policies and assessment system in the province are best characterized as ones that hold high ideals, but are subject to instability and a number of inconsistencies.

The Commission believes that a stable and effective K-12 education system is essential to the future of our province. It provides societal benefits that extend far beyond children, their families, and their communities. Without a strong system, who will be our doctors, our nurses, our tradespeople, our police officers? Who will govern our municipalities, our province, our country?

Given the broad-based benefits of the education system, the province must have a greater role in financing K-12 education. This will ensure that geography does not impact school divisions' ability to finance equitable and effective educational opportunities for all Saskatchewan students. It will also ensure that the residents of Saskatchewan share more fairly and equitably in the financing of our investment in education. A greater provincial role, however, does not assume an increase in the overall level of resources going into education. We did not consider an increase in overall taxation to be an option.

Stable and effective K-12 education system is essential to the future of our province. It provides societal benefits that extend far beyond children, their families, and their communities.

Our goal was to devise mechanisms for financing K-12 education that will reduce the over-reliance on property taxation to fund education and reduce inequity in the K-12 education financing system.

Directions for change

5

Government can support the status quo or it can choose to provide more provincial funding to support education. It is imperative that government proceed with education property tax relief over a reasonable amount of time.

When we started this process, we knew the issues were complex and there would be no silver bullet that would address all of the matters set out in the Commission's terms of reference. Along the way, we received counsel that a number of strategies, some implemented over time, would be necessary to achieve our objectives in a sustainable manner. After hearing from the public and completing our research, we know this to be true.

In many instances, one initiative itself could not go far enough to meet our objectives. In other cases, undesirable implications of one initiative can be offset when you combine it with another. Therefore, it became important to develop an integrated package that could meet our objectives and make meaningful change a reality.

What do we want to accomplish? As we looked at the options, our goal was to devise mechanisms for financing K-12 education that will:

- reduce the over-reliance on property taxation to fund education
- reduce inequity in the K-12 education financing system

With that in mind, the following outlines the options that flow from what we heard, what we concluded and what we were asked to do. It also presents practical and attainable recommendations that we believe will achieve a balance within the Saskatchewan context, while building on the strengths of our current system. We believe the appropriate balance contains solutions that are not perfect, but are practical and realistic. And at the end of the day will ensure equal educational opportunities for all students.

Reduce the over-reliance on property taxation to fund education

People have told us, and we agree, that education property taxes in Saskatchewan are too high and need to come down. We've also concluded that this form of taxation has many flaws and our heavy reliance on it tends to magnify inequities in the system. Therefore, we feel it is important to find another source of revenue – one that is more equitable and more closely linked to ability to pay – to reduce the dependence on education property tax.

Government faces two choices. It can support the status quo or it can choose to provide more provincial funding to support education.

It is certainly government's prerogative to pursue the first option. There are many programs and services competing for scarce resources. However, in the context of the Commission's work, the many submissions received and other studies performed, we cannot recommend this option. It is imperative that government **proceed with education property tax relief** over a reasonable amount of time.

Having concluded that education property taxes should be reduced, the next questions to consider are:

- For whom?
- By how much?
- How should we provide relief?
- How do we finance it?
- Over what length of time should we implement it?

For whom?

People from all walks of life and property classes expressed concern with the level of education property tax and its unfairness. Seniors, those of low or fixed income, residents of acreages, cottage owners, owners of small and large business, and those concerned with economic development and provincial competitiveness were all troubled by our heavy reliance on the tax.

Agricultural producers, in particular, expressed concern about the huge increases in education property tax since the 1997 reassessment. Since then the problem has been compounded by a declining population and increased assessment per student values (making the school division 'richer' and thus eligible for less grant funding), while some producers suffered declining incomes. Our public opinion polling confirmed that education property tax levels were a greater concern in rural areas.

It is difficult to determine if there is inequity between property classes. One measure demonstrates that the agricultural class is treated inequitably, while the next demonstrates a greater imbalance for the business and commercial class. It is not clear, however, whether certain classes of property are adequately compensated through decreased percentages of value, exemptions, and other mechanisms put in place to mitigate the large shifts in reassessment. We do concur, however, that variable and declining incomes may be adding to farmers' concerns about property taxes, which require payment regardless of challenges with current income. The heavy reliance on this type of tax tends to exacerbate the problem.

The Commission also recognizes that seasonal cottage owners have experienced great increases in their education property tax levies since the 1997 reassessment and subsequent changes to mill rate factors and percentages of value.

Some further consideration should be given to how these two property classes have been affected and whether the assessment system and tax policies are treating them justly.

The Commission has concluded that until any specific inequities caused by the assessment system can be identified and remedied, the province should **provide education property tax relief equally across all property classes**.

By how much?

Some people have said that education property taxes should be eliminated. Others have said the province should return to historic levels where the province contributed 60% to education and boards of education contributed 40%. And many have said that Saskatchewan should at least come down to the Canadian average.

Eliminating education property taxes would require the province to find an additional $650 million to $700 million in new revenue from other sources. This would also significantly affect local decision making, as it would eliminate the ability of boards of education to raise revenue to fund local priorities in schools.

People have stated they need significant property tax relief and tensions are rising, especially in the agricultural community. They accept that property tax relief will likely come at the expense of another form of taxation and that it will not be accomplished over night. They are willing to wait as long as the end result is worth the wait.

The amount of revenue required to reach the "Canadian average" varies depending on how the Canadian average is measured. Matching the average for provincial expenditures on education (as a percentage of overall expenditures), would require increased provincial funding of about $400 million. To match the Canadian average on a cost per capita basis would require an additional $320 million.

Having the provincial contribution increase by $200 million would bring the provincial/local ratio to nearly 60:40 and would allow an education property tax decrease of approximately 30% across all classes. Increasing this amount to $300 million would mean a greater provincial share and more significant education property tax relief for rate payers. New revenue of $300 million from the general revenue fund would allow an education property tax reduction of about 45% and would result in a provincial/local ratio of nearly 70:30.

The Commission **concludes** that the ideal amount of new revenue to provide education property tax relief is **$200 million, increasing to $300 million over the next several years** as resources allow. This would bring Saskatchewan closer to the Canadian average of provincial expenditures as a per cent of overall government expenditures.

Having the provincial contribution increase by $200 million would bring the provincial/local ratio to nearly 60:40 and would allow an education property tax decrease of approximately 30% across all classes. The ideal amount of new revenue to provide education property tax relief is $200 million, increasing to $300 million over the next several years.

How should we provide relief?

There are a number of options for providing education property tax relief. We looked at two broad categories:

1. Provide targeted relief to specific taxpayers through other tax tools (credits, rebates, income tax deductibility).
2. Provide general education property tax relief by injecting new revenue from the general revenue fund (GRF) and requiring school boards to adjust their mill rates accordingly.

1. Provide targeted relief to specific taxpayers

In Assertion #2 we concluded that property taxes are less fair than other forms of taxation. They tend to be regressive, taking a greater proportion of income from those with lower income. They are insensitive to sudden changes in income level. Government could choose to leave education property taxes at their current level and introduce a mechanism to improve the fairness of this tax for specific individuals. In the United States, these types of programs have been referred to as "circuit breaker" programs as they allow for targeted relief to individuals who have experienced a reduction in income for various reasons.[67]

A tax credit program would improve the progressivity of the system. However, it does add complexity to the tax system, which the province has tried to simplify over the last several years. It may be more effective to reduce property taxes overall.

We have considered three potential tax tool options:

- refundable property tax credits
- property tax rebates
- income tax deduction for resident education property taxpayers

Refundable property tax credits

Manitoba and Ontario provide property tax credits to offset the impact of property taxes, primarily for those of lower income. In both cases, the credits are refundable, meaning the tax filer may be eligible to receive the benefit even if there is no income tax payable. The Ontario program is comparable to that offered in Manitoba.

We have chosen to describe the Education Property Tax Credit Program provided in Manitoba[68] to demonstrate how a tax credit could be implemented in Saskatchewan:

- An education property tax credit advance of $400 is deducted from the property tax bill of most resident homeowners who pay more than $250 in property taxes.
- Renters and eligible homeowners who do not receive the advance may claim the tax credit through the provincial income tax system. The tax credit provides a benefit of $400-$675 depending on income. The latter portion of the credit phases out at a family income of $27,500.
- Seniors may be eligible for an additional credit up to a maximum of $800, depending on income; this phases out at a net income of $40,000.
- In addition, homeowners over the age of 55 who earn less than $23,800 and pay more than $160 in education property taxes may be eligible to claim up to $175 on their income tax return. A similar benefit is available to renters by direct application to Manitoba Housing.
- This group of credits costs Manitoba approximately $180 million annually.

The benefits of introducing a tax credit program in Saskatchewan are:

- It would improve the progressivity of the system. Those with lower incomes or people who suffer temporary income losses would get some relief through the provincial income tax system. Relief would be provided only to those who specifically need assistance because of a lack of ability to pay (as identified by level of income).
- The province could determine what income level to apply the credit to and what amount of deduction is appropriate considering all other credits and exemptions at play within the system.

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[67] *Odden R. Allan and Picus O. Lawrence. School Finance a Policy Perspective. 2nd ed. (United States: The McGraw Hill Companies, 2000).*

[68] *For more information on Manitoba's tax credit program, visit www.ccra-adrc.gc.ca and search for form "MB479" which will provide the T1 Manitoba Credits form and information for Manitoba residents. Or visit the Province of Manitoba's Web site at www.gov.mb.ca/finance/tao/eptc.html*

The drawbacks are:

- The credit would likely apply only to personal income tax filers. Corporations (including corporate farmers) who pay corporate income tax would not necessarily have access to this mechanism to provide education property tax relief, unless specific provisions were made[69].
- Property tax bills are paid with current income. Reducing income tax payable is a benefit that may come too late to help with cash flow requirements. Tax credits are less responsive to individual circumstances than a straight property tax reduction.
- A tax credit could be designed and implemented relatively easily through the provincial income tax system. However, it does add complexity to the tax system, which the province has tried to simplify over the last several years. It may be more effective to reduce property taxes at source.
- While providing individual property tax relief, this type of program does not influence education property tax levels overall and does not improve the ratio of provincial/local share. Even with their tax credit in place, it appears that property taxes are still a significant concern for rate payers in Manitoba.

Property tax rebates

Provinces occasionally offer property tax rebates to reduce the impact of this type of tax. A *Farm Land Property Tax Rebate Program* introduced in Saskatchewan in 2000 and 2001 rebated 25% of education property tax paid by agricultural producers based on assessed ownership. The program cost approximately $25 million per year and provided an average rebate of approximately $450 to agricultural producers.

British Columbia currently has a property tax rebate program that works as follows:

- The program is described as a "home owner grant" and is designed to help reduce the amount of property tax paid on principle residences.
- The regular grant may reduce property taxes by as much as $470 and an additional grant for seniors, veterans, and persons with disabilities could reduce taxes by as much as $745.[70]
- Current property taxes must be at least $350 before claiming a regular grant and at least $100 before claiming the additional grant. Retroactive grants are also allowed for the prior grant year if application was not made and new home owners are liable for all outstanding taxes on the property.
- B.C. also provides a tax deferral program for eligible homeowners including seniors, widows and disabled persons and a penalty-free extension for farmers whose cash crops are not harvested until later in the year.
- This program cost the B.C government $508 million in 2002.[71]

Generally, the benefit of a rebate program is that it refunds a pre-determined amount of money to property taxpayers who are eligible for the rebate. However, this type of program has drawbacks as well:

- It adds a significant amount of administrative burden for those applying and those verifying the residency requirements, the assessments on many parcels of land, and the payment of taxes on those parcels.

A rebate refunds a pre-determined amount of money to property taxpayers who are eligible. However, it adds a significant amount of administrative burden for those applying and those verifying the requirements, it is an indirect form of benefit, and the amount of relief may not be seen as adequate.

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[69] In Ontario, an allowance is made for farms that are incorporated. The tax credit claim is based on 20% of the amount of rent charged by the corporation for the farm residence and one acre of land.

[70] The regular grant is not applicable to homes assessed at over $572,000. The additional grant is eliminated on homes over $599,500. More information on B.C.'s home owner grant is available at: www.rev.gov.bc.ca/rpt/Brochures/homeownergrant.pdf

[71] B.C.'s population is just over four million, therefore an equivalent program in Sask. (following the same parameters) could cost approximately $130 million.

- It represents a cost to government, the amount of which depends on how broadly the rebate is offered and the amounts being rebated. The program offered in 2000 and 2001 cost roughly $50 million. A more extensive program offered to low income residents more broadly would be more expensive.
- It is an indirect form of benefit. Depending on the application process, the rebate payment could be made much later than the time that property taxes were paid.
- Since rebates generally take the form of grant payments and are not administered through the income tax system, they are not 'income tested'. This means that all property taxpayers would be eligible, regardless of their ability to pay their property tax.
- Depending on how the program is designed, the amount of relief may not be seen as adequate by those taxpayers facing significant cash flow problems. They may not make the link between a rebate cheque provided in one month and a property tax bill due at some other point in the year.

Providing tax deductibility to homeowners would not benefit farmers who reside on their farms as their homes are already exempt from property tax.

Income tax deductions for resident education property taxpayers

Instead of a tax credit or property tax rebate, the government could provide an income tax break to residential property taxpayers, allowing them to deduct the amount of education property tax paid from their provincial income tax. Businesses and agricultural producers can deduct property tax paid from federal and provincial income tax (both personal and corporate) as it is a recognized business expense. That option is currently not available to homeowners in any Canadian province.

Providing tax deductibility to homeowners would not benefit farmers who reside on their farms, as their homes are already exempt from property tax. Like all residential property taxpayers, business owners would benefit on their residences, but would get no additional relief from their business property tax.

This option would cost up to $28 million annually, assuming an average marginal provincial tax rate of 12% on an estimated $230 million in residential education property taxes.

Pursuing income tax deductibility in Saskatchewan would be challenging for a number of reasons:

- The province and the federal government operate under a Tax Collection Agreement (TCA), in which the federal government collects income tax on the province's behalf. Under the TCA, provinces are required to adopt the federal definition of the income tax base and a common set of tax rules. They are prohibited from adopting measures that redefine the common national tax base or alter the definition of taxable income for provincial tax purposes. Provinces can, however, introduce income tax credits to achieve similar policy objectives.
- If the province chose to introduce this measure on Saskatchewan personal income tax only, it would have to be approved by the federal government and could be rejected if considered to be a significant deviation from the national tax base. If a province attempted to self-administer such a measure, the federal government would have the option of terminating the province's TCA.
- Another drawback to this option is that it does not seem to address the concerns of those who may need the most relief. Income tax deductibility would not provide as great a benefit to lower income earners as they are taxed at a lower marginal rate (11% in Saskatchewan). Unless some income testing was part of the design, the main beneficiaries of this option would be higher income residential taxpayers as the have a higher marginal tax rate. This grou has not been among those most concerne about education property tax levels. Senio those of lower income, business owners and agricultural producers were most concerned at our public meetings and in our public opinion polling.

We **conclude** that, while these three tax tool options would reduce the property tax paid by specific individuals, they would make little progress toward reducing the overall inequities in the property tax system and improving our provincial share of education costs. Tax credits, rebates and income tax deductibility all represent a cost to government, would add to the administrative complexity, and would provide an indirect and likely delayed benefit to individuals. A more effective method of providing an education property tax reduction is for government to **provide a direct reduction at source**, as outlined in the next option.

2. Provide education property tax relief by injecting new revenue from the GRF and requiring school boards to adjust their mill rates

Another option is to provide direct property tax relief by replacing some portion of the education property tax with increased revenue from general revenues and require school boards to adjust mill rates so that they are lowered by an equivalent amount.

There are two main challenges with this option. First, it requires additional revenue at a time when resources may not be abundant. Second, it requires a mechanism to restrict school boards and municipalities from moving into the "tax room" created. Both of these challenges will be addressed further within the options that follow in this report.

Given the messages we received through our public consultations and stakeholder meetings, the Commission **concludes** that government should **provide direct education property tax relief through reductions in school board mill rates** rather than implementing tax tools to provide an indirect benefit.

How do we finance education property tax relief?

Throughout the course of our consultations, we heard many suggestions about how to fund a reduction in education property taxes. While many people told us this reduction should obviously be funded by another form of taxation, others were less convinced. The Canadian Federation of Independent Business (CFIB), for example, told us that they "vehemently oppose" any increase in taxes as this would reverse the progress made in recent years to make the province more competitive. Yet most people thought shifting to a tax more closely related to ability to pay would be a significant improvement. People also told us to look not only at revenue, but also at expenditures.

While we did not achieve a consensus on finding the replacement revenue, we did hear a number of key directions. The options for financing an education property tax reduction are:

1. Raise revenue through another form of provincial taxation (e.g., provincial sales tax, income tax).
2. Find revenue by shifting priorities and reducing expenditures elsewhere.
3. Use revenue growth to find additional resources over time that can be diverted to education financing.

1. Raising revenue through another form of provincial taxation

Our assessment of the suggestions raised considered the principles set for the Commission as well as other issues that are important to tax policy:

- adequacy
- simplicity of administration
- transparency
- fairness for all taxpayers
- competitiveness
- impact on individuals and specific groups (i.e., will consumer choices be influenced?)
- impact on the overall economy
- impact on equalization payments from the federal government

Throughout the course of our consultations, we heard many suggestions about how to fund a reduction in education property taxes. While we did not achieve a consensus on finding the replacement revenue, we did hear a number of key directions.

The PST was known as the Education and Health Tax until it became apparent that the cost of education and health greatly exceeded the revenue raised by the E&H Tax alone. According to the Mid Year Report, the Government expects to spend $3.6B on the departments of Health and Learning and collect $852M in PST revenue in 2003-04.

Some suggestions corresponded neither with our principles nor our criteria. For example, user fees are not compatible with our fundamental belief that education is a benefit to all of society; therefore, the funding source should be broad based and equitable.

Flat taxes and poll taxes are assessed at a flat amount per person and do not reflect an individual's ability to pay. Suggestions to implement this type of tax were excluded as they offer no improvement to the overall tax system. Our objective was to move to a more progressive and fair form of taxation.

From a simplicity perspective, it would be more effective to change an existing tax rather than introducing a new one. A new tax would increase the burden for those collecting and remitting the tax, increase costs and administrative complexities at the provincial level, and may not be well received by the public. For these reasons, the Commission excluded suggestions for income taxes levied at the municipal level and new sales taxes designated as "education fees" with a different rate and base than the existing sales tax.

On the issue of adequacy, some options would not generate enough revenue to have a significant impact on the reliance on property tax. For example, a one cent increase on the provincial fuel tax applied to gasoline would generate approximately $12 million – not enough to significantly reduce property taxes.

As we stated earlier, the Commission has concluded that Saskatchewan's overall tax system is fairly competitive and becoming more so as a result of recent tax reforms. We examined tax options to determine if they would provide an adequate, equitable revenue source to replace some of the education property tax without dramatically affecting the province's competitiveness. We concluded that the only taxes that meet our fairness, simplicity and adequacy criteria are the provincial sales tax and the provincial income tax.

We have identified three approaches and assessed each according to the criteria identified above:

- increase the provincial sales tax (PST) by one percentage point to 7%
- increase the PST to 7% and expand the base to include some items that are currently exempt
- increase personal income tax

Increase the PST by one percentage point

On the issue of **adequacy**, increasing the PST by one percentage point would raise approximately $133 million in revenue – enough to fund an education property tax decrease of about 20% for all property classes[72].

One clear advantage of this option is that it provides for a visible reduction in an unpopular, regressive tax by increasing a tax many see as more progressive. While most people are unaware of the amount of sales tax they pay each year, annual property tax notices provide a very clear description of the annual property tax due. A 20% reduction in education property tax would be immediately noticeable. A one point increase in the PST, while visible on each purchase, may be less noticeable on an annual basis, and might not be seen as significant enough to influence consumer behaviour.

Under this option, **transparency** should be improved. While individuals know how much property taxes they pay, they don't necessarily see an increase in their education property taxes translate into improved education services in their community or even province wide. If the additional revenue received from the PST increase corresponds to an increase in Saskatchewan Learning's budget appropriation, the provincial share of that funding should be more obvious[73]. As the local share of funding diminishes, transparency within the overall system should improve.

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[72] A 20% reduction in education property taxes would cost approximately $130 million based on actual education property taxes levied in 2002 (GRAA Mill Rate Survey). Projections for 2003 are that education property tax levies will be approximately $705 million in 2003. If this projection holds true then a 20% reduction would cost approximately $140 million.

[73] Some have suggested that the only way to improve transparency is to have a dedicated education tax or fee that is specifically earmarked for education financing. Governments tend to shy away from dedicating taxes as it reduces budgetary flexibility and is perhaps misleading when the majority of government expenditures, which have no revenue generating capability, are funded from general revenues. For example, the PST was known as the Education and Health Tax until it became apparent that the cost of education and health greatly exceeded the revenue raised by the E&H Tax alone. According to the Mid Year Report, the Government expects to spend $3.6B on the departments of Health and Learning and collect $852M in PST revenue in 2003-04.

With respect to **fairness**, some see sales tax as regressive since everyone pays it, even those of low income. Others see sales tax as more closely linked to ability to pay, with those of greater income and spending ability consuming more and contributing more to the tax base. Saskatchewan has taken a number of steps to improve the fairness of the PST for lower income people and families. A number of items typically considered to consume a higher percentage of income in low income families are excluded from the sales tax base. For example, children's clothing and footwear, basic groceries, prescription drugs, home heating fuel and electricity are all exempt from the PST[74].

The government has also introduced, as part of personal income tax reform in 2000, the *Saskatchewan Sales Tax Credit*[75] to ensure a fair distribution of the provincial sales tax. This means that people with incomes below $35,000 can claim a refundable tax credit, administered through the personal income tax system, to compensate for some of the PST paid in that year.

The important feature here is choice. People can often choose to pay less sales tax by not purchasing or by purchasing a lower priced item. Property owners have little choice about the amount of property tax they pay after they decide to own property for a business or residence.

Some have the choice to relocate, but there is no guarantee that property taxes would be significantly less, or would remain lower for an extended period of time.

The polling undertaken by the Commission in September sought public opinion on which type of tax should be raised. Nearly half (48%) of respondents favoured the sales tax, almost 39% chose income tax, and 13% the gas tax. This is compatible with what we heard in our public consultations. Many suggested replacing education property tax with a tax that was more closely linked to income. The majority suggested either sales or income tax.

From an **administrative** perspective, there are some other advantages. An increase in the sales tax could be implemented with little extra administration over the long term. Increasing an existing tax is easier and less costly than introducing a new one. The increase could be implemented all at once, as there is no administrative advantage to phasing it in.

With respect to **competitiveness**, our close proximity to Alberta is a significant challenge. It is difficult to appear competitive when you are sitting next to the only province without a sales tax. However, Saskatchewan's sales tax is lower than all other provinces. The following are the rates as of June 2003:

The important feature here is choice. People can often choose to pay less sales tax by not purchasing or by purchasing a lower priced item. Property owners have little choice about the amount of property tax they pay after they decide to own property for a business or residence.

Figure 36 – Provincial Sales Tax Rates (% of retail price)

BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD
7.5	0	6	7	8	7.5	8	8	10	8

Source: Saskatchewan Finance

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[74] *The federal Goods and Services Tax (GST) does apply to these items.*

[75] *The Saskatchewan Sales Tax Credit is available to Saskatchewan residents who file an income tax return and meet the family and income criteria. The credit is fully refundable, meaning that a person does not have to pay income tax to receive the benefit. The credit has an adult, spouse (or equivalent) and a child component. For example, the maximum benefit for a family with two children occurs between income levels of $8,600 and $27,300, at which point the credit begins to decline at the rate of 1% of family net income. The credit is completely eliminated at $35,000.*

With a one point increase in PST, Saskatchewan would be tied with Manitoba for the lowest PST in the country. Many have suggested that increasing from 6% to 7% would not change behaviours dramatically. On the other hand, it may be difficult for the public to accept, as this would be the first sales tax rate increase since 1993.

What is the potential **impact** of a sales tax increase on **individuals, agricultural producers and business**?

Clearly the transfer from education property tax to sales tax would shift the tax load from property taxpayers to consumers of goods and services. Not every taxpayer, even property owners, would immediately recognize the benefit of reduced education property taxes. However, the intention is to provide a *tax shift.*

To assess the impact of a PST increase and a corresponding decrease in education property taxes, we made a number of assumptions about family circumstances, potential deductions, spending patterns, likely housing needs and associated property tax levels. Because of these assumptions, the analysis will not reflect all individual circumstances. However, it does illustrate how the tax burden could shift, for some specific family types, under the conditions specified.

Figure 37 compares the status quo to the potential impact of this option on several different income profiles: a single person earning $35,000; a senior couple earning $30,000; and families at income levels of $50,000, $75,000 and $100,000. The analysis looks at four major taxes in the provincial tax system for urban residents[illegible] and demonstrates the potential impact of a shift between education property taxes and sales taxes on these specific family types. Table 13 in the Schedule of Tables identifies the data sources and all assumptions made for the different taxes displayed in this figure.

With a one point increase in PST, Saskatchewan would be tied with Manitoba for the lowest PST in the country. Many have suggested that increasing from 6% to 7% would not change behaviours dramatically.

Figure 37 – Impact of PST Rate Increase on Different Family Types

	Single Person @ $35,000	% of Taxes	Senior Couple @ $30,000	% of Taxes	Dual Income Farm @ $50,000	% of Taxes	Dual Income Farm @ $75,000	% of Taxes	Dual Income Farm @ $100,000	% of Taxes
Status Quo										
Provincial Income Tax	$2,718	52%	$463	16%	$2,510	42%	$5,308	57%	$8,323	65%
Retail Sales Tax	$516	10%	$410	15%	$803	13%	$1,082	12%	$1,260	10%
Gasoline Tax	$150	3%	$150	5%	$300	5%	$300	3%	$300	2%
Property Tax	$1,800	35%	$1,800	64%	$2,400	40%	$2,600	28%	$3,000	23%
Total Taxes (% of income)	**$5,184**	**15%**	**$2,823**	**9%**	**$6,013**	**12%**	**$9,290**	**12%**	**$12,883**	**13%**
Option: Increase PST to 7% and reduce education portion of property tax by 20%										
Provincial Income Tax	$2,718	54%	$463	17%	$2,510	43%	$5,308	58%	$8,323	65%
Retail Sales Tax	$602	12%	$487	18%	$937	16%	$1,262	14%	$1,470	12%
Gasoline Tax	$150	3%	$150	6%	$300	5%	$300	3%	$300	2%
Property Tax	$1,609	32%	$1,609	59%	$2,146	36%	$2,324	25%	$2,682	21%
Total Taxes (% of income)	**$5,079**	**15%**	**$2,709**	**9%**	**$5,893**	**12%**	**$9,194**	**12%**	**$12,775**	**13%**
Change in Total Taxes	**$(105)**		**$(114)**		**$(120)**		**$(96)**		**$(108)**	

Notes to the table

- *"Property Tax" includes both municipal and education taxes, however, the reduction only applies to the education portion of the tax (estimated to be 53% of the total tax levied on residential property in 2000 according to GRAA's Mill Rate Survey).*
- *Housing types were selected based on possible square footage requirements for the family type estimated by the Commission and values provided in the Royal LePage 2003 Survey of Canadian House Prices.*
- *Estimated income tax, sales tax and gasoline tax values were provided by Saskatchewan Finance based on tax filer data and Statistics Canada's Survey of Family Expenditures.*
- *The percentage values show both the % of total taxes (to identify the relative proportion of the tax) and, in the "total taxes" row, the % of income (which shows the proportion of income spent on total taxes).*
- *For more information on assumptions, see Table 13 in the Schedule of Tables.*

[illegible] *We could not conduct an impact analysis specifically for agricultural producers for a number of reasons. First, we used the Royal LePage survey to make our assumptions on average property tax paid for the various residential income groups. A similar source was not available to estimate a typical value for agricultural property tax, given the wide variety of farms in the province. Similarly, the tax filer data does not distinguish farmers from other individuals or businesses, making it difficult to estimate an average level of income and sales tax paid, especially given that many producers also have off-farm income.*

The analysis indicates that the impact would be slightly positive across the various family types: an overall increase in the percentage of income paid to PST is compensated by a corresponding (or greater) decrease in the percentage of income going to property taxes. For example, the senior couple would see the amount of income spent on sales tax increase from $410 (or 15% of taxes) to $487 (18% of taxes) while their property taxes decreased from $1,800 to $1,609 (from 64% of taxes to 59% of taxes). Their total taxes paid would be reduced by $114, but the percent of taxes paid relative to income remains at 9%, essentially a neutral impact. This type of shift is displayed consistently across all five family types.

The fact that the dollar value of taxes paid drops slightly for each family type compared to the status quo, suggests that urban residents may be favoured under this option and some of the tax burden may be shifted somewhere else. The question is where?

Based on revenue collection information from both retail and non-retail vendors, Saskatchewan Finance indicates that a sales tax increase is generally considered to be borne approximately 60% by business and 40% by consumers. This distribution measures only the direct tax effect. The final impact would consider the extent to which Saskatchewan businesses can pass on the increased cost of the PST on business inputs to its Saskatchewan consumers.

While our economy is small and we are generally believed to be "price takers",[77] businesses would be able to pass on the increased cost of the PST much like they might currently pass on any portion of their property tax cost. This leads us to feel that consumers may take on a greater proportion of a tax increase.

A key question in all of this is whether agricultural producers would present themselves as consumers or businesses in this analysis. In general, we can conclude that agriculture producers would only be affected by the degree of their personal consumption as most of their business expenses would not be subject to sales tax due to:

- sales tax exemptions on farm machinery, repair parts, fertilizer, pesticide and seed
- fuel tax exemptions and rebates[78]

Furthermore, like other businesses, agricultural producers would retain the ability to deduct any PST paid on eligible business expenses from provincial and federal income tax.

Without having the benefit of detailed economic modeling,[79] we can state that a shift from education property taxes to sales taxes would result in:

- a neutral to slightly positive impact on the residential sector, although a wide variation of impacts could be expected depending on consumption differences, housing preferences and the extent of residential property ownership
- a net gain for the agricultural property class, given the range of sales tax exemptions for farm inputs; this is based on the fact that the average property tax bill levied to farmers is higher than that levied to urban residents and consumption on non-business items would vary substantially between individuals
- the commercial sector initially shouldering a greater proportion of the tax increase, depending on the ability to pass the increased cost of goods through to consumers

Agriculture producers would only be affected by the degree of their personal consumption as most of their business expenses would not be subject to sales tax.

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[77] A buyer or seller that possesses so little market power that it has no control the price of the good, it must "take" or accept the going market price.

[78] As noted elsewhere in the report, PST exemptions provide savings to producers of approximately $132M annually while fuel tax exemptions offer savings of about $107M.

[79] The Commission's understanding is that incidence analysis on the property tax system in Sask. has not been done recently and the capacity to do this modeling may not currently exist in the province. The government may need to acquire additional capacity to do impact analysis on these and other property tax options as they arise in the future. For example, further analysis will be required to determine the impact on: seniors versus young families; rural residents versus urban; property owners versus renters; capital versus labour-intensive businesses; farms versus non-farm businesses; and institutions that currently do not pay property tax.

In a paper written for the Commission, Dr. John Allan examined a similar option and concluded the, *"burden of such an increase would be distributed among all classes of taxpayers in proportion to their taxable purchases. While the incidence of the change may not be as progressive as an equal-yield change in the personal income tax, it almost certainly would be more progressive than the incidence of the property taxes it would replace. Moreover, to the extent that there was concern about the impact of the change on low-income families, the existing refundable provincial sales tax credit could be used to provide focused, relatively economical relief to those families."*[80]

Based on how the **different property classes** contributed to the education tax levies in 2002 we can estimate the potential benefit of an education property tax reduction of $133 million for all property classes.

Figure 38 – Potential Benefit of $133 Million Tax Shift

Property Class*	% Share of of Education Tax Levies (% of 2002 levies)	Share of $133M Education Property Tax Reduction**
Residential	41%	$55M
Commercial	34%	$45M
Agricultural	25%	$33M
Total	100%	$133M

Data source: GRAA Mill Rate Survey, estimates by Learning and Finance, calculations by the Commission

**'Residential' includes seasonal residential; 'commercial' includes business, commercial, industrial, pipelines railways and potash levies.*

*** $133M is the estimated amount of revenue raised through a one point increase in the PST.*

The business community told us that property taxes were insensitive to income or profit levels and unresponsive to fluctuating incomes. While business groups have told us they have concerns with tax increases, a shift from education property tax to sales tax although not welcome, still offers some flexibility in business decision making.

Since businesses can deduct the PST, along with other eligible business expenses, from provincial and federal income tax, this allows some of the tax burden to be "exported" to the federal government. Therefore, there is some advantage to replacing property tax with another tax that offers the same deductibility provisions, rather than replacing it with a personal income tax increase, for example, which would result in the loss of deductibility.

Relative to other revenue generating options, such as implementing a new payroll tax, this option would likely still be favoured by the business community. Given their concerns with the level of, and heavy reliance on education property tax, they would likely still view a shift away from education property tax as positive.

Some may be concerned about our provincial competitiveness, especially near the Alberta border. However, our assessment is that a one percentage point increase is not likely to alter consumer behaviour enough to render this option impractical, particularly when the benefits of reducing the reliance on education property tax are so great.

This option would replace a significant portion of the education property tax with a tax that offers more choice and is more closely related to ability to pay. It would also serve to make the overall tax system in the province more progressive as the reliance on property tax shifts to a greater reliance on the more broadly based sales tax.

The Commission **concludes** that this option satisfies, to a great degree, the criteria identified for a suitable revenue source to offset a reduction in the education property tax.

> *"...there is some advantage to replacing property tax with another tax that offers the same deductibility provisions rather than replacing it with a tax increase, which would result in the loss of deductibility."*
>
> Dr. John R. Allan

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[80] *Allan, Dr. John. University of Regina. Restructuring the Funding of K-12 Education in Saskatchewan. Prepared on behalf of the Commission on Financing K-12 Education. Regina, 2003.*

Increase the PST to 7% and expand the base to include some items that are currently exempt

Another option for funding an education property tax reduction is to expand the sales tax base to some items that are currently exempt. Governments have the ability to determine their own consumption tax bases based on the economic and social requirements of their population. Figure 39 identifies a number of consumption tax exemptions that the provincial government has implemented to make the tax system more progressive. The dollar value shown is an estimate of the revenue not received in 2003-04 as a result of having the exemption.

Figure 39 – Tax Exemptions

Sales and Fuel Tax Exemptions	**$Ms**
Children's clothing and footwear	6.8
Prescription drugs	23.2
Electricity and natural gas	63.2
Restaurant meals and snack foods	47.9
Basic groceries	92.9
Reading materials	10.2
Construction services	182.4
Other services	26.1
Used goods	5.0
Other sales tax exemptions	9.3
Fuel tax exemptions for primary producers and heating fuels	20.5
Exemptions that specifically benefit agricultural producers:	
Farm machinery and repair parts	41.2
Fertilizer, pesticide and seed	88.5
Livestock and horticultural facilities	2.0
Fuel tax exemption and rebates	106.9
Total	726.1

Source: 2003-04 Budget, 2003 Tax Expenditure Accounts

By providing exemptions on sales and fuel tax, the government gives up approximately $725 million annually in revenue. For a more comprehensive list of tax exemptions, credits and deductions, see the Saskatchewan Provincial Budget.[31]

By providing exemptions on sales and fuel tax, the government gives up approximately $725 million annually in revenue.

If the objective is to replace a regressive tax with a more progressive revenue option, it would not be logical to suggest that the sales tax base be expanded to items that would unduly penalize lower income earners (e.g. basic groceries and children's clothing). However, there is a tax exemption in Figure 39 that, if included in the tax base, could be perceived by many as a type of "wealth tax". Eating in restaurants is considered by many to be a luxury as opposed to buying basic groceries.

Some would say that groceries are a necessity, but restaurant meals and snack foods generally are not. Since there is significant choice in restaurants, higher income earners would likely bear a greater share of the tax. Lower income earners tend to eat out less often, likely choose less expensive restaurants and would continue to benefit from basic groceries being exempt from the PST.

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[31] *2003 Government of Saskatchewan Tax Expenditure Accounts, 2003-04. Saskatchewan. Department of Finance. Saskatchewan Provincial Budget Building for the Future. Budget Summary. The Honourable Jim Melenchuk, Minister of Finance. www.gov.sk.ca/finance/. (December 2003).*

Expanding the tax base to include restaurant meals and snack foods would generate approximately $50-60 million in new revenue. This combined with a one percentage point PST increase would finance a $200 million reduction in education property tax.

Expanding the tax base to include restaurant meals and snack foods would generate approximately $50-60 million in new revenue. This combined with a one percentage point PST increase would be **adequate** to finance a $200 million reduction in education property tax as the two measures together would create new revenue of approximately that amount[82].

From an **administrative** perspective, expanding the tax base to include restaurant meals and snack foods could be implemented immediately following an announcement by government.

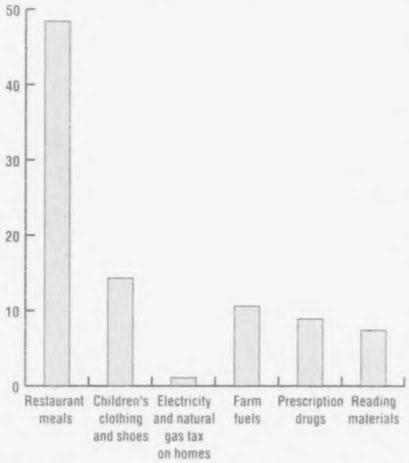
With respect to progressivity or **fairness**, people will likely be divided. Some will view this as taxing a form of wealth, others will be concerned about the impact it will have on lower income earners. On the surface it would appear that the burden would shift from property taxpayers to consumers of restaurant meals, potentially including some non-property owners.

This proposal would result in negative feedback from restaurants and other interested associations citing concerns with potential job losses in restaurants, the impact on children and youth, and competitiveness.

While restaurant owners would be concerned about losing this exemption, some might feel that this type of business has enjoyed a competitive advantage over the last several years. The 2003-04 Budget (technical papers) stated that, *"tax expenditures may create distortions in consumer and other economic behaviour. For example, the exemption for restaurant meals and snack foods provides preferential treatment for this category of consumer expenditure."* [83]

Our public opinion poll provides some insight into how the public might perceive removal of this tax exemption. When asked which one exemption they would support removing to generate additional revenue, respondents clearly preferred restaurant meals, regardless of where they lived or whether they owned property.

Figure 40 – Public Opinion Poll: Preference for Tax Exemptions



Source: Sigma Analytics, Public Attitudes Survey conducted on behalf of the Commission, September 2003

With respect to **competitiveness**, all provinces east of Saskatchewan collect PST on restaurant meals. Some provinces set minimum levels after which the tax applies. The GST is added to restaurant meals in all provinces.

To assess the potential **impact** of this option, we compared it to the status quo for the same income profiles identified under the previous option (one percentage point increase in the PST).

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[82] *Adding restaurant meals and snack foods to the tax base is estimated to provide an additional $48M when the PST is 6%. At 7%, the exemption is worth about $56 million. This, combined with a one point PST increase would generate approximately $190 million. A 30% reduction in education property taxes would cost between $200 million and $210 million. However, current revenue forecasts would not have reflected an additional $200 million going back into the economy as a result of the proposed education property tax decrease. Therefore the Commission estimates that the revenue raised from this option will be roughly equivalent to what is required to finance a reduction of approximately 30% across the property classes.*

[83] *Saskatchewan. Department of Finance. Provincial Budget Building for the Future. Budget Summary. The Honourable Jim Melenchuk, Minister of Finance. Regina: Province of Saskatchewan, 2003-04.*

Figure 41 – Impact of PST Rate Increase and Base Expansion on Different Family Types

	Single Person @ $35,000	% of Taxes	Senior Couple @ $30,000	% of Taxes	Dual Income Farm @ $50,000	% of Taxes	Dual Income Farm @ $75,000	% of Taxes	Dual Income Farm @ $100,000	% of Taxes
Status Quo										
Provincial Income Tax	$2,718	52%	$463	16%	$2,510	42%	$5,308	57%	$8,323	65%
Retail Sales Tax	$516	10%	$410	15%	$803	13%	$1,082	12%	$1,260	10%
Gasoline Tax	$150	3%	$150	5%	$300	5%	$300	3%	$300	2%
Property Tax	$1,800	35%	$1,800	64%	$2,400	40%	$2,600	28%	$3,000	23%
Total Taxes (% of income)	**$5,184**	**15%**	**$2,823**	**9%**	**$6,013**	**12%**	**$9,290**	**12%**	**$12,883**	**13%**
Option Increase PST to 7%, include restaurant meals and reduce education portion of property tax by 30%										
Provincial Income Tax	$2,718	54%	$463	17%	$2,510	43%	$5,308	57%	$8,323	64%
Retail Sales Tax	$672	13%	$551	21%	$1,071	18%	$1,456	16%	$1,764	14%
Gasoline Tax	$150	3%	$150	6%	$300	5%	$300	3%	$300	2%
Property Tax	$1,514	30%	$1,514	57%	$2,018	34%	$2,187	24%	$2,523	20%
Total Taxes (% of income)	**$5,054**	**14%**	**$2,678**	**9%**	**$5,899**	**12%**	**$9,251**	**12%**	**$12,910**	**13%**
Change in Total Taxes	**$(130)**		**$(145)**		**$(114)**		**$(39)**		**$27**	

Again, the impact on the various family types is neutral to positive. In addition, these calculations demonstrate a greater degree of progressivity under this option since those in lower income groups experience a greater overall tax decrease than those in the higher income families.

For example, the senior couple would see the amount of income spent on sales tax increase from $410 (or 15% of taxes) to $551 (21% of taxes) while their property taxes would decrease from $1,800 to $1,514 (from 64% to 57% of taxes). Their total taxes paid would be reduced by $145. The family earning $100,000 however, would see an increase in the total taxes paid of $27.

If this holds true for most income categories, it demonstrates a very positive shift from income-insensitive property taxes to a system that is more related to ability to pay.

This option builds upon the previous one, with the majority of the impact resulting from the PST increase, and a lesser impact resulting from the base expansion to restaurant meals. Therefore, the same general conclusions made under the previous option regarding the potential impact on businesses and agricultural producers apply to this option as well. Again, individuals would be impacted by the degree of their personal consumption of restaurant meals and snack foods. Given this, we can conclude that consumers will likely take on a greater share of the tax burden relative to the business sector.

Figure 42 demonstrates the estimated benefit of a $200 million reduction in education property tax on the various property classes.

This demonstrates a very positive shift from income-insensitive property taxes to a system that is more related to ability to pay. Individuals would be impacted by the degree of their personal consumption.

Figure 42 – Potential Benefit of $200 million Tax Shift

Property Class	% Share of of Education Tax Levies (% of 2002 levies)	Share of $200M Education Property Tax Reduction*
Residential	41%	$82M
Commercial	34%	$68M
Agricultural	25%	$50M
Total	100%	$200M

Data source: GRAA Mill Rate Survey, estimates by Learning and Finance, calculations by the Commission

** $200M is the approximate amount raised through a one point PST increase and base expansion to restaurant meals and snack foods.*

We can **conclude** that given the concerns raised with the level of, and reliance on, property tax, a shift away from the education property tax would be viewed positively. This option would replace an even greater portion of the education property tax with a tax that offers more choice and is more closely related to ability to pay. While individual impacts will vary with consumption preferences, this is a greater reduction than identified under the previous option, so it should result in an even more progressive tax system overall.

Increase personal income tax

The Saskatchewan Personal Income Tax Review Committee led by Jack Vicq in 1999 concluded that Saskatchewan's tax mix needed to be improved. Its recommendations reflected the belief that there was an over-reliance on personal income tax and an under-reliance on the retail sales tax. The feeling was that Saskatchewan must lower marginal income tax rates while maintaining a relatively low PST to compete with other jurisdictions, particularly Alberta. This strategy prompted the Committee to recommend a substantial PST base expansion.

The greatest advantage of this option is that it would significantly improve the fairness of the overall tax system.

Government agreed with the majority of the recommendations made by the Vicq Committee and undertook a reform of the tax structure. Significant changes were made between 2000 and 2003. To summarize briefly, the province:

- eliminated the flat tax and other surtaxes
- moved to a tax based on income instead of the federal tax
- introduced three tax rate bands (11%, 13% and 15%) to lower the rates and increase simplicity
- increased tax credits to provide additional support to low income earners and seniors (a basic personal tax credit of $8,000, a spousal and equivalent tax credit of $8,000, a new $2,500 tax credit per child and a $1,000 seniors supplement to the age credit)
- introduced the Saskatchewan Sales Tax Credit to offset the effect of sales taxes on lower income earners
- indexed the system to inflation to eliminate bracket creep

The income tax system has been improved greatly. It is more progressive, it has been simplified, and it will now keep pace with inflation.

The third option for financing an education property tax reduction is an increase in personal income tax. Increasing the provincial income tax rates by 1 point would raise approximately $100 million if the increase was applied across all three tax brackets. If only the middle and high rates were increased, the revenue raised would be an additional $35 million annually. Further adjustments to credits and exemptions would raise additional revenue.

The greatest advantage of this option is that it would significantly improve the **fairness** of the overall tax system. Shifting our reliance from the regressive property tax to the most progressive form of taxation, income tax, would make great strides in improving the overall progressivity of the tax system. That being said, any changes made to credits and exemptions to raise additional revenue may undermine some of the recent changes to make the tax more progressive.

Adjustments to the provincial income tax could be made effective January 1st of a new tax year, with little **administrative** effort. However, there are two major drawbacks that render this option impractical. First, it would impact the province's **competitiveness** and may reverse some of the important advances in economic growth the province has enjoyed recently. It could be seen as counter to the significant income tax reform underway over the last three years. We feel it would be inappropriate to suggest that government reverse any decisions made and actions taken in the spirit of this personal income tax reform.

The second drawback was articulated through the work done by Dr. Allan for the Commission[84] when he considered a personal income tax increase as a means of reducing the education property tax. He concluded that shifting to personal income tax would, in effect, be more costly for businesses and agricultural producers. These property classes would **lose the ability to deduct** that portion of their property tax from income tax and would experience a greater income tax burden that could not be cushioned by tax deductions.

As Dr. Allan stated: "...to reduce reliance on property taxes by offsetting increases in income taxes would thus be to substitute a non-deductible tax for a deductible one." Therefore it would not be suitable to pursue an increase to the provincial income tax as a means of providing property tax relief across all of the property classes.

Although a greater reliance on personal income tax would increase the overall progressivity of the tax system, the Commission **concludes** that it would have a significant impact on our provincial competitiveness and would be less fair to business and agricultural property owners. As noted in the previous two options, the PST is a deductible business expense. Shifting from education property tax to PST maintains the benefit of income tax deductibility, is more closely linked to ability to pay, and meets more of our criteria for a suitable replacement for some of the education property tax.

The Commission **recommends** that the province provide education property tax relief equally across all property classes through an injection of $200 million from the general revenue fund in 2005-06, increasing to $300 million over the subsequent four year period.

The Commission also recommends that the province finance the initial $200 million of new revenue by increasing the PST to 7% and expanding its base to include restaurant meals and snack foods, effective April 2005. The additional $100 million will be addressed under subsequent options.

2. Find revenue by shifting priorities and reducing expenditures elsewhere

The Canadian Federation of Independent Business and others suggested to the Commission that education property tax relief could be provided without an increase in taxes. They suggested that government:

- reprioritize government spending and find ways to streamline operations and reduce costs
- review public service salaries and benefits
- dedicate a certain percentage of future economic growth to reducing education property tax
- eliminate government intervention in the economy; the CFIB quoted one of its surveys that said that 82% of respondents oppose Crown Corporations being permitted to invest in new or existing businesses and another survey which revealed that business regards direct government investment as the least effective way to grow the economy
- allocating more money from general revenues to education rather than using the current property tax system

It is beyond the Commission's mandate to suggest what expenditures should be reduced or what programs should be eliminated. However, this is something the public has asked us to request of the government on their behalf.

"...to reduce reliance on property taxes by offsetting increases in income taxes would thus be to substitute a non-deductible tax for a deductible one."

Dr. John R. Allan

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[84] *Allan, Dr. John. University of Regina. Restructuring the Funding of K-12 Education in Saskatchewan. Prepared on behalf of the Commission on Financing K-12 Education. Regina: 2003.*

Our analysis in *Assertion # 8: Expenditures Need to be Examined* and the Statistics Canada data provided in Tables 22 and 23 show that provincial expenditures on elementary and secondary education rank lower than all other provinces on a per capita basis and as a percentage of gross domestic product. After Health, Saskatchewan spends more on social services, debt servicing, and resource conservation and industrial development than it does on K-12 education. According to Statistics Canada data, Saskatchewan has K-12 education ranking fifth on the list of spending priorities; it ranks second, third or fourth in all other provinces. However, according to the Commission's public opinion poll, respondents placed schools after health care, but ahead of roads and highways, agriculture and economic development.

After Health, Saskatchewan spends more on social services, debt servicing, and resource conservation and industrial development than it does on K-12 education. According to Statistics Canada data, Saskatchewan has K-12 education ranking fifth on the list of spending priorities; it ranks second, third or fourth in all other provinces.

Many have suggested that the departments of Health, Justice, and Community Resources and Employment should take on greater responsibility for the funding associated with School^{Plus} and other services provided in schools.

Some have suggested that we dedicate lottery and gaming revenue to education. However, a significant portion of the profits generated from lottery, gaming and casino activity already flows into the government's general revenue fund annually to be used for provincial programs. In 2001-02, lottery ticket sales generated roughly $42 million in net profits which were distributed through the Saskatchewan Lotteries Trust Fund as follows:

- $11.5 million to the GRF
- $26.5 million to various sport, culture and recreation organizations and programs
- $4 million for administration of the trust fund, ticket distributors and the federal government

As for other gaming revenue, all proceeds from video lottery terminals (VLTs) accrue to the GRF through the Saskatchewan Liquor and Gaming Authority (approximately $180 million in 2002-03). Net profits from the Saskatchewan Gaming Corporation (approximately $32.0 million in 2002-03) and Saskatchewan Indian Gaming Association slot machines (approximately $29.4 million in 2002-03) are distributed according to the *Saskatchewan Gaming Corporation Act* and the 2002 Gaming Framework Agreement.[85]

The federal government recently expressed its intention to provide additional funding for health care and for municipal infrastructure and renewal. If additional federal support is achieved for these or other provincial expenditures, the Commission recommends that K-12 education be the next area of funding priority.

The Commission **concludes** that there are a number of potential areas that government could examine for expenditure reduction to allow a shift in spending to K-12 education. Using a balanced approach of tax shifts and expenditure re-allocation would be well received by those who told the Commission to **examine expenditures as a means of providing education property tax relief**.

3. Use revenue growth to find additional resources for education

Many have told us that we could finance an education property tax reduction by simply dedicating a portion of increased economic growth to education. There are many that believe the Saskatchewan economy is getting stronger and more diversified, that we are experiencing increasing investment and have potential for substantial economic growth in 2003.[86]

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[85] *Net profits from SGC are split: 50% to the GRF, 25% to the First Nations Trust (FNT) and 25% to the Community Initiatives Fund. Net profits from SIGA casinos are split: 37.5% to the GRF, 37.5% to the FNT and 25% to Community Development Corporations.*

[86] *Saskatchewan's 2003-04 Mid-Year Report noted that all of the private sector forecasters have increased their projections for real GDP growth in 2003 (ranging from a projected growth rate of 3.1% to 5.8%). See www.gov.sk.ca/finance/finrep/2003/2003midyear.pdf*

There are encouraging signs everywhere, but we recognize that with our heavy dependence on the resource sector and our relatively small economy, our province is not as capable as some of cushioning the blow of an unpredicted financial burden. On top of that, our province's position relative to other provinces makes us on the verge of becoming a "have province", meaning that any significant growth in our revenue base makes us susceptible to reduced equalization payments from the federal government. In other words, as the province becomes stronger fiscally, we receive less from federal transfer payments.

We also note that the government has some challenges to face with declining farm incomes, the recent "mad cow" crisis, increasing costs of health care and growing infrastructure and needs across all program areas. We feel that a great proportion of the anticipated revenue growth is already assumed within the government's revenue and expenditure forecasts for the next several years. Therefore, specifically dedicating a portion of that revenue growth to education may be more challenging than it appears. Having said that, governments do spend money and find resources for the programs and services they deem to be necessary. The government of Saskatchewan has steadily increased its operating expenditures by an average of 5% year over year since 1999.[87]

Instead of categorizing this option as one that dedicates economic growth to K-12 education financing, we would define it as one that considers how some portion of the increased revenue growth could be used to increase the priority placed on education financing, thereby allowing a further shift away from education property tax.

The Commission acknowledges that the government does not have excess revenue sitting in reserve to address this problem. However, we have heard people say that the province, or the province's tax base, needs to contribute more to K-12 education. Our public opinion poll told us that people place education right behind health care. We feel that placing greater priority on education would be well received in Saskatchewan. If it allows school boards to reduce mill rates, putting more money back in taxpayers' pockets, then it could have very positive impacts on the provincial economy.

The Commission **concludes** that offering education property tax relief through a combination of injecting **new revenue** from the GRF (tax shift), **examining expenditures** for opportunities to reprioritize, and **dedicating new revenue** growth would be the most balanced approach.

Over what length of time should we implement this change?

The Commission was challenged to determine how long the province should take to implement the education property tax reduction. The answer to this question will be determined primarily by what the province can afford and how urgent the problem is perceived to be. We feel that education property tax relief should be provided immediately, given growing public concern and the fact that Saskatchewan's provincial contribution to education funding is askew compared to the rest of Canada. We recognize, however, that government has many fiscal responsibilities and funding pressures.

We feel that education property tax relief should be provided immediately given growing public concern and the fact that Saskatchewan's provincial contribution to education funding is askew compared to the rest of Canada.

We feel that a sales tax increase is justified on the basis that it would allow for a tax shift from an unpopular tax, improve the progressivitiy of the overall tax system and be seen to be funding something fundamentally important to the province. Based on what we heard, we feel there would be wide spread support for this change.

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[87] *Calculation is based on actual operating expenditures as published in the Public Accounts for the years 1999 to 2003 and the mid year projection for 2003-04, as published in the 2003-04 Mid Year Report.*

Many options exist as the government can choose to alter the amount of relief and/or lengthen the amount of time over which education property tax relief is implemented. We considered two specific options that are consistent with the conclusions reached thus far (i.e. to provide education property tax relief immediately to all property classes through some combination of tax increases, expenditure restraint and revenue growth). These options also both consider an increase of $300 million from the GRF as we feel this is the most appropriate amount to provide significant education property tax relief and an improved provincial to local share of funding.

1. Use a tax increase to provide an immediate injection of $200 million in new revenue from the GRF and phase in an additional $100 million over the subsequent four year period.
2. Phase in education property tax relief more gradually by expanding the tax base for an additional $50 million in the first year and then providing incremental increases from the GRF of $50 million per year over five years.

We examined these options to determine their specific impact on the provincial/local share and the potential for education property tax reduction in the various property classes.

Government has said it will do something to provide education property tax relief. Moving forward with some specific initiatives in the next year or two would signal that government is committed to making those changes happen.

1. Use a tax increase to provide an immediate injection of $200 million in new revenue from the GRF and phase in an additional $100 million over the subsequent four year period

People have been concerned about education property taxes for a long time. Our analysis found that education property taxes have increased substantially over the last five to ten years and inequities are growing. Government has said it will do something to provide education property tax relief and the expectation is that something will be done in the near future. Moving forward with some specific initiatives in the next year or two would signal that government is committed to making those changes happen. Injecting a large amount of revenue in the first or second year of the reform would also allow for some of the changes to be transitioned, allowing for a smoother implementation.

This option provides an immediate education property tax reduction for all property taxpayers of almost 30% on average. As additional revenue is added, the reduction comes closer to 43%.

Figure 43 – Potential Impact on Property Classes and Provincial Share

Property Class	Impact in 2005	Impact in 2009
Education property tax reduction*	28%	42.5%
Residential	$82M	$123M
Commercial	$68M	$102M
Agricultural	$50M	$75M
Total	$200M	$300M
Provincial to local share**	58:42	66:33

** The impact would be an immediate education property tax reduction of between 28% and 30% on average in 2005 and almost 43% in 2009 based on an estimated value for education property tax levies in 2003 of $705M. This calculation was not done in future (2009) dollars.*

*** The immediate provincial to local share would be in the range of 58:42 to 60:40 in 2005, growing to somewhere between 66:33 and 70:30 in 2009.*

Figure 43 shows the general impact of this option alone. For further information, see Table 24 in the Schedule of Tables for a demonstration of the total impact of all recommendations working together.

2. Phase in education property tax relief more gradually over the next five years

Government has the option of providing education property tax relief more gradually. This option still requires an injection of $300 million from the GRF over five years, but it is done without a PST rate increase and relies more heavily on expenditure restraint and revised priority setting.

This option would encompass:

- a $50 million injection of new revenue in the first year funded by a PST base expansion to restaurant meals

- an injection of $50 million per year over five years funded by increased revenue growth and reprioritization of expenditures

This option also makes some immediate progress toward education property tax relief, but achieves the desired results more gradually.

Figure 44 – Potential Impact on Property Classes and Provincial Share

Property Class	Impact in 2005	Impact in 2009
Education property tax reduction*	14%	42.5%
Residential	$41M	$123M
Commercial	$34M	$102M
Agricultural	$25M	$75M
Total	$100M	$300M
Provincial to local share**	50:50	66:33

*The impact would be an immediate education property tax reduction of, on average, between 14% and 15% in 2005 and almost 43% in 2009, based on an estimated value for education property tax levies in 2003 of $705M. This calculation was not done in future (2009) dollars.

** The immediate provincial to local share would be approximately 50:50 in 2005, growing to somewhere between 66:33 and 70:30 in 2009.

Figure 44 shows the general impact of this option alone. See Table 25 in the Schedule of Tables for a demonstration of the total impact of all recommendations working together.

We have developed both options around an increase in revenue of $300 million, as we feel this is the appropriate amount to provide significant education property tax relief and a more appropriate provincial to local share of expenditures.

Of course, government could pursue many other options that could cost less, take a longer time to implement, or both. The Commission **concludes** that it is best to pursue the first option as it provides substantial education property tax relief through **a practical mix of tax shifts, expenditure examination and dedication of future revenue growth**.

The Commission **recommends** that the province provide an additional $100 million in new revenue by phasing in $25 million per year from 2006-07 to 2009-10.

The Commission further recommends that the government finance this by reducing expenditures and/or assigning a portion of increased revenue growth directly to further the education property tax reduction for all property classes.

The new revenue must be displayed prominently so as to identify that this funding is in addition to any other increases to the school finance budget as a result of program enhancements.

Conclusion

When we set out to "find the balance", we heard often that something needed to be done, that it should be bold, and that it should be implemented over time. People recognized that the solutions wouldn't be easy and that they would not happen over night.

All along we felt we needed to identify a responsible and practical solution, one that can be implemented over the next several years, but one that provided some immediate education property tax relief. We did not think it would be helpful to simply leave it to government to figure it out. We believe we have outlined some opportunities for government to pursue that allow for some significant education property tax relief.

When we set out to "find the balance" we heard often that something needed to be done, that it should be bold, and that it should be implemented over time. We believe we have outlined some opportunities for government.

At the beginning of this section we set out a number of questions to be answered:

- Should we reduce education property taxes or maintain them at current levels?
- For whom?
- By how much?
- How should we provide relief?
- How do we finance it?
- Over what length of time should we implement it?

On average, at the end of the five year period, education property taxes would be reduced by nearly 43% from 2003 levels.

The following recommendations answer these questions.

To reduce the over-reliance on property taxation to fund education, we recommend:

1. **The province provide education property tax relief equally across all property classes through an injection from the general revenue fund of $200 million in 2005-06, increasing to $300 million over the subsequent four year period.**

   This new revenue would result in an average education property tax reduction of nearly 30% across all property classes, effective in the 2005 property tax year.

2. **The province finance the initial $200 million of new revenue by increasing the provincial sales tax to 7% and expanding its base to include restaurant meals and snack foods, effective April 2005.**

   This would result in a *shift* from education property tax to sales tax, not an overall tax *increase* as education property taxes would be reduced by a proportionate amount. This would result in a provincial revenue to local education property tax ratio of almost 60:40 in 2005.

3. **The province provide the additional $100 million in new revenue, by phasing in $25 million per year, from 2006-07 to 2009-10.**

   The government can finance this by reducing expenditures and/or assigning a portion of increased revenue growth directly to further the education property tax reduction for all property classes.

   The new revenue must be displayed prominently to identify that this funding is in addition to any other increases to the school finance budget as a result of program enhancements.

   If government pursued only this first set of recommendations, they would achieve a provincial revenue to local education property tax ratio of almost 70:30 at the end of the five years. Subsequent recommendations on achieving greater equity in the system would result in the ratio reaching about 80:20 at the end of the five years.

   On average, at the end of the five year period, education property taxes would be reduced by nearly 43% from 2003 levels.

Reduce inequity in the K-12 financing system

We agree with the people in Saskatchewan who believe that a stable and effective K-12 education system is essential to the future of our province. By and large, the system of educating children appears to be working but cracks are appearing in the way the system is financed. Stability and effectiveness can only continue if we successfully eliminate the financing inequities in the system. We believe those inequities have manifested themselves in the extreme difference in assessment per student among school divisions and the phenomenon of zero grant boards.

The purpose of an equalizing formula for distributing education funding is to balance wealth so that student opportunities and taxpayer investment are not compromised by geography. When local boards of education with large variations in assessment per student are combined with low levels of provincially distributed funding, this is not possible. This is the current state of education financing in Saskatchewan. It is a result of the large variation in assessment base relative to student population in school divisions. Saskatchewan's over-reliance on property tax to fund education compounds the problem.

When we looked at how other provinces funded K-12 education, we found that many had faced a similar situation in the past. Many provinces took the step of reducing the amount of local property tax. Some completely eliminated local taxing authority and began taxing property at the provincial level. Others replaced local revenue completely through increases in provincial general revenue. In all of these situations, the challenge was to find a way to correct the uneven distribution of wealth among school divisions to improve equity.

In this context, we looked at four main options for improving the distribution of wealth among school divisions:

1. increasing provincial government contributions through general revenues
2. implementing a provincial education property tax on all property classes
3. pooling the most concentrated, highly assessed properties and levying a provincial mill rate on these property classes
4. combining increased general revenues with a provincial mill rate on commercial and grants-in-lieu (GIL) property

We asked Saskatchewan Learning's School Finance Branch to model these options using the current operating grant program criteria. The modelling assumed the 2003-2004 grant assessment and recognized expenditures and 2003 mill rate information. The models estimate the change in grants for each school board and the impact of the options on zero grant boards. It estimates changes in assessment available to school divisions. It does not, however, estimate these assessment changes with the full impact of the 2005 reassessment.

The modelling assumes 2003 as the base year to evaluate how the options impact the current state of school divisions. Saskatchewan Learning estimated school divisions' current expenditures using their 2003 mill rates to assess the general impact of the options on mill rates. The summaries that follow show the impact on 95 boards of education instead of 99 because the three comprehensive boards of education and the francophone board have no taxing authority.

It is important to note that the modelling and impacts focus on education property tax revenue and provincial funding for the operating costs of school divisions, not the revenue required for capital building programs. Any reduction of local funding through a provincial property tax or restrictions on school division mill rates will reduce school division's capacity to finance capital investments. Implementing these options should consider this.

The challenge was to find a way to correct the uneven distribution of wealth among school divisions to improve equity.

Commercial includes commercial, industrial, pipelines, railways, elevators and potash classifications. We will refer to all of these properties as "commercial" for the rest of the discussion.

We evaluated each option on the basis of how well it balanced:

- reducing uneven wealth distribution among school divisions, measured by assessment per student
- maintaining fiscal autonomy for boards of education

The ultimate solution should reduce inequity and maintain fiscal autonomy over the long term, ensure all school divisions receive a grant, and contribute to a reduction in the reliance on property tax.

Increased provincial government contribution through general revenue

This option increases the amount of financing provided by the province through general revenues with a corresponding decrease in the financing provided by boards of education through education property tax. Increased provincial funding would be distributed through the provincial operating grant on an equalized basis.

The ultimate solution should reduce inequity and maintain fiscal autonomy over the long term, ensure all school divisions receive a grant, and contribute to a reduction in the reliance on property tax.

Given the criteria discussed under the property tax reduction options, we limited the modeling to a maximum increased contribution of $300 million. The model assumed boards of education would have access to the same assessment base. For each $100 million increase in provincial general revenue, the required local education property tax would decrease by about 14%.

A general revenue increase of $300 million would result in a decrease in local revenue of about 43%. It **meets our objective to reduce the over reliance on property tax** for education financing, leaving Saskatchewan closer to the national average and similar to neighbouring provinces.

However, this option **does not reduce the uneven wealth distribution** among school divisions. Wealth distribution is measured by the total amount of assessment a school division may draw on, divided by the number of students in the school division. The highest assessment per student is currently about $4.4 million per student. This is nearly 13 times more than the provincial average assessment per student of $341,000. This means that with a one mill increase, the highest assessment per student school board can raise $4,400 per student, while the provincial average school board can only raise $341 per student.

This option does not change the difference in the assessment per student. The high assessment per student boards could improve programs at much lower mill rates than could other boards. Over time, since the uneven wealth distribution has not been changed, the **inequity among school divisions will continue to grow. Two school divisions would still not receive a grant**.

A variation of this option is what some other provinces have done – remove school divisions' ability to access the property tax base, in conjunction with 100% provincial funding from general revenues. This variation would also:

- completely remove property tax from financing K-12 education
- completely remove fiscal inequity among school divisions
- require increased provincial general revenues of about $700 million
- completely remove fiscal autonomy from school divisions

Increasing the province's share of education funding without removing taxing authority from boards of education, does not address the large differences in the tax base available to school divisions. Without this, we cannot achieve improved equity. On the other hand, completely removing taxing authority from boards of education improves equity, but does not maintain any degree of local fiscal autonomy.

Provincial education property tax on all property classes

This option makes the revenue generated from the assessment base more equal by implementing a provincial education property tax on all property classes and redistributing this revenue to all boards of education.

We considered two variations of this option:

1. Provincial tax on all property classes with no local taxing authority

This first variation removes school division taxing authority and implements a provincial tax on all property classes so that the same amount of education property tax revenue is generated. The province would establish a uniform mill rate for all property classes across the province at the weighted average mill rate of 19.1 (the actual 2003 weighted average provincial mill rate).

We expect a uniform provincial mill rate to result in increased mill rates for some divisions and decreases for others, assuming boards of education do not change their expenditure levels. Those that are now below the average provincial mill rate will see increases. Those that are now above the average mill rate will see decreases. The following summarizes expected changes by school division classification.

We expect a uniform provincial mill rate to result in increased mill rates for some divisions and decreases for others, assuming boards of education do not change their expenditure levels.

Figure 45 – Impact of Provincial Mill Rate of 19.1 on All Properties

School Division Classification	Number of School Divisions – Mill Rate Increases	Number of School Divisions – Mill Rate Decreases	Average Change in Mill Rates by Classification
Rural	23	30	(1.1%)
Towns/villages	4	12	8.7%
Urban public	3	7	0.9%
Urban separate	2	7	(0.9%)
Regina/Saskatoon	2	2	0.7%
North	3	0	9.4%
TOTAL	**37**	**58**	

All school divisions would now receive a provincial grant. Without local taxing authority, this variation **eliminates fiscal inequity and fiscal autonomy** for school divisions. This variation **would not result in any reduction in the reliance on property tax** to finance K-12 education.

Municipalities currently administer the education property tax on behalf of boards of education and could do so for the provincial education property tax. This may cause some concern for them since they will not want to answer concerns from the public for changes to the provincial education property tax.

Many school divisions will experience an increase in mill rates at current expenditure levels. These increases should be phased in over time to give school divisions and their ratepayers time to adjust.

Under this variation, the province would collect property tax for the purpose of financing K-12 education. Some people told the Commission they were concerned that if the province collected property tax, it may be used for programs and services other than K-12 education. This was viewed as inappropriate. It would be necessary, then, for the province to report the amount of education property tax collected separately and demonstrate the use of the provincial property tax for funding education.

2. Provincial tax on all property classes with some local taxing authority

A second variation is a uniform provincial mill rate levied on all property classes, but still maintaining some level of local property taxation authority.

While the provincial mill rate could be set at many levels, we looked at a level that would significantly reduce the number of school boards not receiving a grant, but still maintain local taxing authority for boards of education.

Modeling shows that most zero grant boards start to receive a provincial grant with a provincial mill rate close to 7.5 mills. Only Big Butte and Estlin school divisions would remain without a grant.

The combined mill rate for the majority of school divisions would go down because most of the excess local tax revenues from zero grant boards would be collected by the province and redistributed to all school divisions through the grant program. The impact by school division classification is summarized in the following table:

Figure 46 – Impact of Provincial Mill Rate of 7.36 on All Properties

School Division Classification	Number of School Divisions – Mill Rate Increases	Number of School Divisions – Mill Rate Decreases	Average Change in Mill Rates by Classification
Rural	12	41	(0.4%)
Towns/villages	5	11	13.0%
Urban public	0	10	(4.8%)
Urban separate	0	9	(4.8%)
Regina/Saskatoon	0	4	(4.8%)
North	0	3	(5.2%)
TOTAL	**17**	**78**	

While the provincial mill rate could be set at many levels, we looked at a level that would significantly reduce the number of school boards not receiving a grant, but still maintain local taxing authority for boards of education.

The previous zero grant boards, located in the rural and towns/villages classification, would require an overall increase to mill rates in their divisions to maintain current expenditure levels. This would happen because they have mill rates below the average of other school divisions or their costs are higher than average, or a combination of both.

This demonstrates that the redistribution is working to equalize the relative "wealth" among school divisions, at least in the short term. In the longer term, as school divisions need to increase mill rates to meet increasing costs, these inequities can reappear because the difference in the assessment base among the school divisions has not been addressed. The difference in assessment per student would remain at the current level where the highest assessment per student is nearly 13 times higher than the provincial average.

This variation still **maintains considerable fiscal** autonomy for boards of education, but not all boards will receive a provincial grant. **Two zero grant boards will still exist**.

Reduction in the reliance on property tax to finance K-12 education would not be achieved under this variation.

Some school divisions would experience an increase in mill rates at their current expenditure levels. These increases would need to be phased in over time to give school divisions and ratepayers time to adjust.

As in the variation above, the province would collect property tax for financing K-12 education. The province would need to report the amount of property tax collected separately and demonstrate the use of the provincial property tax for funding education.

Levy a provincial mill rate on highly assessed property classes

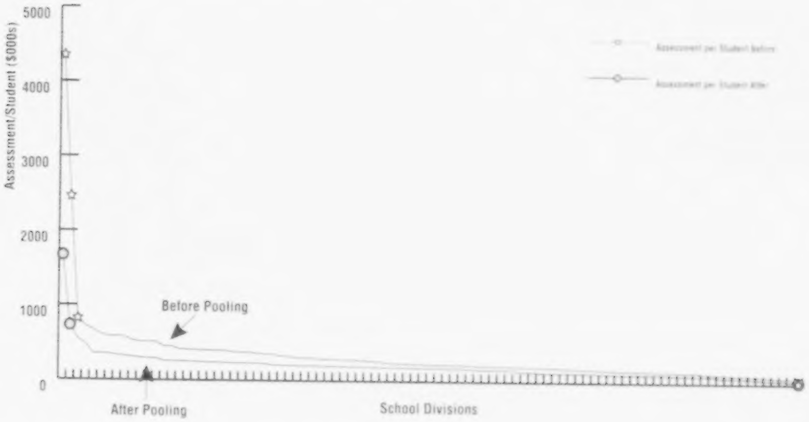
Variability in assessment base is due primarily to the level of highly assessed property class types in a school division. To reduce inequity, the difference in assessment per student among school divisions must be reduced. This option does so by removing highly assessed property classes from the school division tax base and applying a provincial property tax to these property classes. Provincial education property tax revenue is then distributed in an equalized manner to all school divisions.

In Saskatchewan, like other provinces, these highly assessed properties are primarily commercial properties and crown properties that generate grant in lieu of taxes (GIL). The concentration of these properties varies by school division. Many, like pipelines, railways, and natural resources are provincial resources and the education tax revenue derived from these properties should benefit all school divisions. Removal of these property classes from the local tax base should provide an opportunity to permanently equalize this wealth among all divisions in the province.

The following graph shows the impact on assessment per student before and after pooling. This demonstrates that the removal of commercial and GIL significantly removes a large part of the variability among school divisions in assessment per student.

[illegible]

Figure 47 – 2003 Assessment per Student – Impact of Pooling Commercial & GIL Properties



The difference in assessment per student reduces from nearly 13 times higher than the provincial average to about 8 times higher than the provincial average. The average assessment per student for the highest 10% of school divisions drops by nearly one half from $1.30 million to about $0.57 million. Table 26 in the Schedule of Tables lists the assessment per student by school board before and after the pooling of the commercial and GIL assessment.

There will still be considerable variation in assessment per student. This is a result of the variability in enrolment among school divisions and pockets of highly assessed agricultural land. Pooling the agriculture property class as well would further reduce the difference in assessment per student, but would leave many rural school divisions with virtually no property tax base. As a result, we did not consider broader pooling of property classes.

The mill rate of most school divisions should go down in this option because, again, nearly all of the $18.5 million in negative grants has been captured and redistributed through the equalizing grant formula. This is another demonstration of how central equalization of these tax revenues redistributes the local tax capacity among all school divisions in the province, thereby enhancing equity. With their estimated current expenditure levels, the remaining 19 school board mill rates will either stay nearly the same or increase. We expect the largest increases to primarily affect zero grant boards. The impact by school division classification is summarized in the following table:

Figure 48 – Impact of Provincial Pooling of Commercial and GIL Property Classes

School Division Classification	Number of School Divisions – Mill Rate Increases	Number of School Divisions – Mill Rate Decreases	Average Change in Mill Rates by Classification
Rural	14	39	(2.8%)
Towns/villages	5	11	47.0%
Urban public	0	10	(14.4%)
Urban separate	0	9	(15.1%)
Regina/Saskatoon	0	4	(11.4%)
North	0	3	(16.8%)
TOTAL	**19**	**76**	

Pooling the commercial and grants-in-lieu (GIL) properties results in all but two zero grant boards receiving a grant.

Pooling the commercial and grants-in-lieu (GIL) properties results in **all but two zero grant boards receiving a grant**. However, this option **does not reduce the reliance on property tax**. Pooling only the commercial and GIL property classes **does maintain local fiscal autonomy for all school divisions**.

The amount of education property tax collected on commercial and GIL properties under this option was expected to equal what boards of education are collecting across the province today. This requires an average mill rate of nearly 22 on commercial and GIL properties. This is higher than the current weighted average mill rate for the province as a result of the mill rate factors applied to commercial properties. The impact of mill rate factors was described in the assertions and is summarized below:

Figure 49 – 2002 Average Mill Rate Factor by Property Class

	Property Class					
	Agriculture	**Residential**	**Residential Condominium**	**Multi-Unit Residential**	**Seasonal Residential**	**Commercial & Industrial**
Overall Avg	944	914	806	1.195	1.127	1.370

Figure 50 – 2002 Projected Change in School Taxes with Mill Rate Authority Removed

	Property Class					
	Agriculture	**Residential**	**Residential Condominium**	**Multi-Unit Residential**	**Seasonal Residential**	**Commercial & Industrial**
Total	$6.1M	$26.7M	$2.3M	($4.8M)	($.28M)	($30.1M)

Eliminating the mill rate factor impact in this option would require the following action:

- The province would reduce the amount of education property tax collected on the commercial property class to bring the provincial mill rate to the weighted average mill rate in the province.
- The boards of education would need to increase the amount of education property tax collected on agriculture, residential and residential condominium properties to offset the reduction from commercial, and reduce the amount collected on multi-unit and seasonal residential.

A uniform mill rate for all commercial properties could result in a change in individual owner mill rates for that property class, depending on the school board mill rate and the mill rate factor applied by the municipal government. The specific impact would need to be modeled by municipality as this is the level at which mill rate factors are applied. We expect, however, that the uniform provincial mill rate on commercial properties will require a transition plan because some properties will have an increase in mill rate as a result of previously low mill rates and local government mill rate factors relative to other similar properties in the province.

The initial provincial mill rate on commercial and GIL properties would be established based on the current amount of property taxes collected on these properties relative to the amount of assessment. Municipalities could administer the education property tax on behalf of the province as they do for school divisions today.

Some school divisions would experience an increase in mill rates at current expenditure levels. These increases must be phased in over time to give the school divisions and their ratepayers time to adjust.

Introducing a provincial mill rate on commercial and GIL properties and redistributing the education property tax revenue to all school divisions results in an overall reduction in mill rates. It will be important to ensure the appropriate reduction is realized by the ratepayers and is not offset by increased expenditures either by boards of education or municipalities.

As in the options above, the province would collect property tax for the purpose of financing K-12 education. The province would need to report the amount of education property tax collected separately and demonstrate the use of the provincial property tax for funding education.

Combination of increased general revenues and provincial mill rate on commercial and GIL property classes

This option combines the pooling of commercial and GIL education property taxes with the recommended $300 million in increased grant contribution through general revenues over five years. It assumes the provincial education property tax revenue and the increased general revenue will be provided to school divisions through the operating grant formula, based on their remaining assessment per student.

The overall provincial financial impact of this option is summarized in Table 24 in the Schedule of Tables. This summary projects the impact on the province and school divisions overall, including changes to provincial share, local share and impact on property taxes. School division expenditures include a per student annual cost increase at the rate of inflation. We assumed the rate of inflation and the rate of enrolment decline are equal so this effectively reflects no increase in K-12 education expenditures to 2009.

The **mill rates for the majority of school divisions are expected to go down** under this option, with the **average decrease in mill rates at about 43%** assuming current expenditure levels. Overall, mill rates on the remaining agriculture and residential assessment for 89 school divisions will decrease. There will still be six school divisions, all zero grant boards, with increased mill rates at their current expenditure levels. **All school divisions will receive a grant**. The impact by school division classification is summarized in the following table:

It will be important to ensure the appropriate reduction is realized by the ratepayers and is not offset by increased expenditures either by boards of education or municipalities.

Figure 51 – Impact of GRF Increase of $300M and Provincial Pooling of Commercial and GIL Property Classes

School Division Classification	Number of School Divisions – Mill Rate Increases	Number of School Divisions – Mill Rate Decreases	Average Change in Mill Rates by Classification
Rural	2	51	(47.0%)
Towns/villages	4	12	1.0%
Urban public	0	10	(60.0%)
Urban separate	0	9	(60.0%)
Regina/Saskatoon	0	4	(56.0%)
North	0	3	(66.0%)
TOTAL	6	89	

The average provincial mill rate for commercial and GIL properties will decrease by about 43% as a result of the increased general revenue contributions. However, as in the provincial pooling option above, we expect the provincial mill rate to result in an increase in mill rate for these properties in a few school divisions – those with very low mill rates today.

This option will reduce the amount of funding from education property taxes to about 33% from the current 59%.

The financial implementation plan summary (Table 24 in the Schedule of Tables) for this option considers the level of mill rate factors on the commercial class of properties. The benefit of the increased general revenue would be provided to this property class based on the proportionate share of the levies collected from this property class, not on the proportionate share of assessment.

This option **will reduce the amount of funding from education property taxes to about 33%** from the current 59%.

The initial provincial mill rate on commercial and GIL properties would be established based on the current amount of education property taxes collected on these properties relative to the amount of assessment. Again, municipalities could administer the education property taxation on behalf of the province.

The uniform provincial mill rate will require a transition plan because, while it will result in decreases for most commercial and grants in lieu properties, some will likely see an increase as a result of equalization, previously low mill rates and local government mill rate factors.

Some school divisions would require an increase in mill rates to sustain current expenditure levels. These changes should be phased in over time to give the school divisions and ratepayers time to adjust.

The introduction of a provincial mill rate, combined with increased funding from general revenues, results in a rather **substantial, overall reduction in mill rates**. It will be important to ensure the appropriate reduction is realized by the taxpayers and is not offset by increased expenditures by boards of education or municipalities.

As with the options above, the province would collect property tax for the purpose of financing K-12 education. The Commission believes the province should report the amount of education property tax collected separately and demonstrate the use of the provincial property tax for funding education.

Conclusion

We assessed the options for achieving equity on the basis of how well they addressed improvement in equity among school divisions, while maintaining some level of fiscal autonomy for boards of education and addressing the over reliance on school property taxes. The results are summarized for each option and its variation in the table below:

The Commission believes the province should report the amount of education property tax collected separately and discontinue the use of the provincial property tax for funding education.

Figure 52 – Summary of Options for Reducing Fiscal Inequity

Option	Reduce or eliminate difference in assessment per student among school divisions	All school divisions receive a provincial grant	Maintain a level of local fiscal autonomy	Reduce the share of financing from property tax
A. Increase provincial contribution				
1. Partial – $300 million contribution from general revenue	No	No. Two do not	Yes	Yes
2. Fully fund – $700 million contribution from general revenue	Yes	Yes	No	Yes
B. Provincial property tax on all classes				
1. K-12 education property tax levied by the province only	Yes	Yes	No	No
2. Provincial property tax at about 7.5 mills to eliminate most zero grant boards	No	No. Two do not	Yes	No
C. Pool commercial and GIL properties and implement provincial mill rate	Yes	No. Two do not	Yes	No
D. Increase provincial contribution from general revenue. Pool commercial and GIL properties and implement provincial mill rate	Yes	Yes	Yes	Yes

The following table summarizes the estimated impacts on individual school division mill rates as a result of each option:

Figure 53 – Summary of Estimated Impacts on School Division Mill Rates

Option	Number of School Divisions – Mill Rate Increases	Number of School Divisions – Mill Rate Decreases
A. Increased general revenue		
1. Partial - $300 million	0	95
2. Fully fund – $700 million	0	95
B. Provincial property tax on all property classes		
1. Education property tax levied by province only	37	58
2. Provincial property tax at 7.5 mills	17	78
C. Pool commercial & GIL properties and implement provincial mill rate	19	76
D. Increase provincial contribution from general revenue. Pool commercial & GIL properties and implement provincial mill rate.	6	89

One option best meets all of the criteria: **increasing general revenue by $300 million combined with pooling of commercial and GIL property assessment and a provincial education property tax mill rate**.

Introducing a provincial mill rate brings up the question of how the mill rate would be established, levied and collected.

The initial provincial mill rate on commercial and GIL properties would be established based on the current amount of education property taxes collected on these properties relative to the amount of assessment. Municipalities could continue to administer education property tax collection on behalf of school divisions and could do this for the provincial education property tax as well. This may cause some concern for them since they will have one other taxing authority added to their responsibility.

One option best meets all of our criteria: increasing general revenue by $300 million combined with pooling of commercial and GIL property assessment and a provincial education property tax mill rate.

The uniform provincial mill rate will require a transition plan because, while it will result in decreases for most commercial and grants in lieu properties, some will see an increase as a result of equalization, previously low mill rates and local government mill rate factors.

Some school divisions would require mill rate increases to sustain current expenditure levels. These changes must be phased in over time to give the school divisions and ratepayers time to adjust.

Introducing a provincial mill rate, combined with increased funding from general revenues, results in a rather substantial, overall reduction in mill rates. It will be important to make sure the appropriate reduction is realized by the ratepayers and is not offset by increased expenditures by boards of education or municipalities.

Since the province would now collect property tax for the purpose of financing K-12 education, we believe the government should report the amount of property tax collected separately and demonstrate the use of the provincial property tax for funding education.

The increase in general revenue of $300 million combined with the pooling of commercial and GIL properties with a provincial education property tax mill rate does the best job of meeting the criteria of reducing inequity, maintaining autonomy and reducing the reliance on property tax. On this basis, we recommend:

4. **The provice implement a provincial education mill rate on all commercial[89] and grants-in-lieu properties effective April 2005. The initial mill rate shall be based on:**
   - **the rate required to generate the same net amount of education property tax revenue from these properties as the school divisions' collected in 2004 (estimated to be $250 million for 2003)**
   - **a reduction to this amount based on these property classes' proportionate share of the overall reduction in education property tax resulting from the increased general revenue contribution of $200 million in 2005, and the further $25 million per year for four years**
   - **the implications of phasing in a uniform provincial education mill rate on these properties**

All revenue generated from the provincial education property tax shall be distributed in an equalized manner to all school divisions in the province according to their remaining fiscal capacity.

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[89] *Commercial includes commercial, industrial, pipelines, railways, elevators and potash classifications. We will refer to all of these properties as "commercial" for the rest of the discussion.*

Municipalities will collect the property tax on behalf of the province.

Government will establish the provincial mill rate in the annual budget.

The education property tax revenue received by the province should be set up in a separate fund with changes to the fund reported annually.

Combined with recommendation 1, the result is all school divisions receiving a provincial grant. It will result in an overall reduction in revenue from education property tax of nearly 43%, and the opportunity for a mill rate reduction for over 90% of school divisions. The assessment pooling will also stabilize long-term equity among school divisions.

Sustainable reduction of inequity among school divisions requires reducing the differences in ability to generate revenue among boards of education. As demonstrated in the previous set of options, an exclusive provincial property tax on the most variable and concentrated of the highly assessed property class goes a long way to reduce inequity.

However, none of the provincial education property tax options goes far enough to eliminate fiscal inequity in the long term except completely eliminating education property taxing authority for school divisions. This is because the difference in assessment per student is so great for a few school divisions relative to the average provincial assessment per student.

Two school divisions, A and B can be used as an example. Before the pooling of commercial and GIL properties as recommended above, A had a total assessment of $30 million (without any commercial and GIL assessment) and 200 students for an assessment per student of $150,000. Board B had a total assessment of $45 million (with commercial and GIL assessment of $15 million) with 100 students and an assessment per student of $450,000. Board A could raise $150 per student with every one mill increase in property tax rate. Board B can raise three times that amount ($450) per student for the same tax rate increase. In this context, with the same mill rate, board B can spend more to provide programs to its students, or charge a lower mill rate than board A.

If the commercial and GIL property assessment is pooled and a provincial mill rate is applied, A's assessment does not change since it does not have any of these property classes. B, however, has $15 million in assessment from these properties and its taxable assessment drops to the same as A's - $30 million. As a result, B's assessment per student drops to $300,000 per student. Even though the taxable assessment between the two divisions is now the same, B's lower enrolment still allows it to generate double the amount of tax revenue per student as A for the same property tax rate. B's students can still benefit from enhanced programming, or B's ratepayers can still benefit from lower mill rates. This becomes more pronounced from an equity perspective in the face of declining enrolments – the overall relative costs can decrease as enrolments decline, but the size of the property tax available to the board of education remains the same.

Sustainable reduction of inequity among school divisions requires reducing the differences in ability to generate revenue among boards of education.

Removing part of the assessment available does reduce the difference in the financial capacity among school divisions. Pooling the commercial and GIL assessment reduces the difference between the highest assessment per student and the average from 13 times to eight times. Capturing the variation in highly assessed agricultural land by pooling that property class as well, will make further strides in reducing the difference in assessment per student, but would virtually eliminate the assessment base for most rural school divisions.

The options of 100% provincial funding for K-12 education from general revenues or provincial education property tax provides fiscal equity among school divisions, but completely eliminates any local fiscal autonomy.

One other option would go further to reduce differences in assessment per student and still maintain autonomy for boards of education: combining some of the higher assessment per student school divisions with lower assessment per student school divisions. This can be accomplished by restructuring the current boundaries of Saskatchewan school divisions.

Table 26 in the Schedule of Tables lists revised assessments per student after implementing the provincial education property tax on the pooled commercial and GIL assessment. We outlined above how this mechanism reduces the difference between the highest assessment per student and the provincial average from about 13 times to about eight times. Three school divisions on this list still have relatively high assessment per student. If only these three boards were to restructure, presumably with the closest adjacent school division, the highest assessment per student could drop from $1.7 million to $0.484 million. The highest assessment per student school division would then be less than three times higher than the provincial average.

Some Saskatchewan boards of education cite advantages to education programming as a result of restructuring – their students benefit from expanded education programs and services at a reasonable levy on property tax.

Some Saskatchewan boards of education cite advantages to education programming as a result of restructuring – their students benefit from expanded education programs and services at a reasonable levy on property tax. Saskatchewan will continue to have isolated pockets where restructuring may not be the only answer to improve opportunities for students. The Commission believes, however, that it is one tool for improving equity among school divisions for students and ratepayers.

In Saskatchewan, the province and boards of education have worked together for a number of years to voluntarily restructure school divisions. This work has been largely successful, but there are still some boards with very high assessment per student and very low mill rates compared to other school divisions in the province. They have not amalgamated with other divisions because it would mean higher mill rates for their ratepayers. Since the Commission believes K-12 education is a provincial responsibility and should be funded equitably among school divisions, the continuation of very low mill rates in some school divisions is not appropriate.

Further reducing the assessment per student among school divisions, improving equity and enhancing programs for students now requires the province to take an active role to help boards take the next step in restructuring. On this basis we recommend:

5. **The province establish a task force to recommend to the Minister of Learning revised Saskatchewan school division boundaries to increase equity among school divisions and maintain local responsiveness and accountability.**

   The task force should be appointed by April 2004. It should consult with school divisions and other interested parties with respect to revised boundaries and provide a report and recommendations to the Minister of Learning by December 31, 2004. This would permit the government to announce the new school division boundaries by May 2005. Board elections can be held in October 2005. Restructured school divisions would be in place by January 1, 2006.

   This will build on recommendation 4 to further stabilize long term equity among school divisions.

This concludes our main recommendations for reducing reliance on property tax and improving fiscal inequity among school divisions. Other important related issues arose during our consultations and will be discussed in the next section.

Supporting property tax reduction and improved equity

Other related and important issues in the financing of K-12 education arose during our consultations. These issues are:

- fiscal autonomy for boards of education and ensuring recommended property tax reductions are implemented
- revisions to the current provincial funding distribution program, the Foundation Operating Grant
- transparency of the funding associated with human service delivery at the school level
- availability of school division financial and statistical information
- multiple school systems
- property tax policy and the assessment system

Maintaining fiscal autonomy for boards of education and ensuring property tax reductions happen

In most other provinces in Canada fiscal autonomy for boards of education has not been considered as important as it is in Saskatchewan. Other provinces were concerned with fiscal inequity among school divisions and chose to remove or severely limit local taxation authority to achieve equity.

Provincial education property tax is one way to eliminate fiscal inequity, but completely eliminating fiscal autonomy for boards of education is, in Saskatchewan, too high a price to pay for absolute fiscal equity. It is the Commission's view that fiscal equity must be balanced with local flexibility and responsiveness. This is best achieved by maintaining a network of boards of education with local taxing authority.

The recommendations made so far must result in overall reductions in property tax, at least over a period of transition, to meet the objectives of the Commission. This will not happen if the increase in provincial funding results in expenditure increases by either school divisions or municipal governments. Some people told the Commission this is likely to happen if the province increases its share of funding. Some research evidence from the U.S. supports this assertion. SUMA, in its presentation to the Commission, advised the following:

"The imbalance in provincial vs. local funding of school costs notwithstanding, SUMA members have become wary of proposals intended to simply increase provincial school grants. SUMA was last party to such a proposal in 2001, along with SARM and SSTA, but the increase in Provincial funding that year was still exceeded by an overall increase in total school tax levies, resulting in more rather than less pressure on the local property tax base as a whole. (There again were some wide variations among school boards)."

School division tax revenue increased 7% between 2000 and 2001, the same year the province provided a grant increase of 7.1%. Expenditures between 2000 and 2001 also increased 7%. This represented the highest increase in expenditures for the period 1992 to 2002.

Some municipalities indicated increased general revenue contributions to education were necessary to reduce the education property tax burden so they would have the ability to increase property taxes to fund municipal services. In a September 2003 meeting with the urban mayors, the Commission was advised that restrictions to municipal mill rate increases would be necessary to make sure overall property tax reduction could be achieved.

The Commission respects the principle of local government fiscal autonomy. Recommending a shift in funding from education property tax to general revenues would not be appropriate knowing there is a risk the expected property tax reductions may be lessened or eliminated through expenditure increases by boards of education or municipal governments. Steps to mitigate this risk are necessary, at least during a transition period. On this basis, we recommend:

It is the Commission's view that fiscal equity must be balanced with local flexibility and responsiveness.

6. The province limit the ability of boards of education and municipalities to increase mill rates through the transition period (the first three years), so that ratepayers enjoy the benefit of the education property tax reduction. Implementation should consider exceptions to recognize:

- **reasonable cost increases for local governments**
- **transition of mill rate changes among school divisions**

The Departments of Learning and Government Relations and Aboriginal Affairs should work with boards of education and municipalities to plan for exceptional circumstances and the practical implementation of this recommendation. These plans should be complete by April 2005 to ensure the benefits of the increased general revenue contributions are immediately reflected in the 2005 local mill rates.

The components of the program should also be examined to consider how the province could better handle the costs of human service delivery programs and the financial contribution for these programs by other provincial government departments.

Revision to the Foundation Operating Grant Program

The options for increasing equity and reducing the reliance on education property tax considered continuing the current provincial grant program for distributing any provincial property tax and additional provincial general revenues to school divisions. The equalizing and unconditional principles of the current distribution mechanism are basically sound. To improve equity, responsiveness and simplicity, however, changes should be made here as well.

Ideally, the distribution formula for funding should be based on the estimated cost of defined programs and services necessary to achieve expected outcomes for each individual school division. Given the currently available program and school division information, this is not possible in the near future. It is important, however, to move in this direction.

As a start, recognized expenditures should more closely match program costs. Today, the grant program recognizes a certain level of expenditures, which are not the same as actual expenditures. The components of the grant program should be examined to clarify the reasons for this. This includes looking at differences between urban and rural school division basic rates to determine whether one basic rate for all would be more appropriate with other adjustments for loss of economies of scale and other cost factors for rural school divisions. This type of review should be done on an annual basis to make sure the factors used in the grant remain current.

The components of the program should also be examined to consider how the province could better handle the costs of human service delivery programs and the financial contribution for these programs by other provincial government departments to ensure:

- the province is funding the delivery of these services appropriately
- the costs are not borne by the local school division ratepayer

The review should be undertaken jointly by the province with representatives of boards of education and the K-12 education community.

Specific changes to the grant program can be undertaken once this review is complete. The rejuvenated grant program should be renamed to signal the revised approach.

Over the next few years, the province and education shareholders need to continue work to clearly define levels of programs and services necessary to achieve the desired outcomes at the individual school division level. Costs then need to be determined for these levels of programs and services to provide the province and school divisions with an appropriate and valid funding level.

To make the necessary changes to the grant program, we recommend:

7. **The province revise the current Foundation Operating Grant program in conjunction with school division and K-12 education community representatives, renaming it the "School Tax Equalization Program" (STEP). The revision should address at least the following issues:**

   - **ensuring recognized costs more closely reflect the cost to provide programs and services**
   - **clarifying the difference between urban and rural basic rates**
   - **increasing simplicity and transparency**
   - **funding School$^{\text{PLUS}}$**
   - **recognizing the costs to maintain school division capital**

   Changes to the grant program should be complete by April 2006.

Increased transparency of human service delivery costs and funding

Boards of education and the province have aken an exciting leap toward integrated child and youth program and service lelivery through School$^{\text{PLUS}}$. Successful mplementation of this strategy is key o achieving equity of outcomes for ll Saskatchewan students.

Boards of education have demonstrated trong support for this important initiative. raditionally, the province has been esponsible for the cost of health, social nd justice services. There are real oncerns that delivery of these services n the school will shift some of the funding f these costs from the province to the local roperty tax base.

unding contributions from the responsible overnment departments would support the uccessful implementation of the School$^{\text{PLUS}}$ odel as a cross-government strategy. he province does not publicly report the tal amount of funding to School$^{\text{PLUS}}$ contributed by each government department. The province should demonstrate to boards and the public the overall amount of provincial funding available for School$^{\text{PLUS}}$.

The province already has a reporting and accountability mechanism to make the provincial funding of these programs and services more transparent through its annual budget and public accounts process. Reporting of the Kids First program is an example of this type of mechanism. The funding source can then be matched with the actual costs associated with delivering the programs and services once they are available.

On this basis, we recommend:

8. **The province distinctly and transparently account for the full amount of funding appropriated from each government department for the School$^{\text{PLUS}}$ program with the longer view of reporting all of the funding available for the integrated service model for Saskatchewan children and youth.**

   Implementation should be effective with the April 2004 budget year.

Availability of school division financial and statistical information

Effective changes to the provincial grant formula and transparency of human services delivery costs in schools cannot be made without comprehensive, relevant and comparable financial and statistical information. Some boards of education and members of the public told the Commission that increased expectations on the education sector have required increased financial investment. It is important for school divisions and the province to demonstrate where the increased investment has been made and what was accomplished as a result. Comprehensive, relevant and comparable information is required to do this.

Effective changes to the provincial grant formula and transparency of human services delivery costs in schools cannot be made without comprehensive, relevant and comparable financial and statistical information.

There are constitutional and legal requirements for the current multiple school system and it is outside the mandate of the Commission to explore the options available in this regard.

School divisions and the Department of Learning have done a lot of work to increase the availability, the comparability and timeliness of school division financial information. More needs to be done to determine detailed and consistent costs of programs and services by school division, including costs to support delivery of health, social and justice services through the school. Without this information, effective changes to the grant program and successful accounting for school division and provincial expenditures on education will not be possible. On this basis, we recommend:

9. **The province and school divisions work together to implement changes to the definition and collection of school division financial and statistical information so that:**
   - **program and service costs can be easily determined**
   - **costs for human service delivery can be easily differentiated from "traditional" education program and service costs**
   - **the reason for year-over-year cost increases is easy to determine; year-over-year changes to program and service costs can be compared to factors that drive school board costs (e.g. number of educators and number of students)**
   - **the definition and collection structure is flexible to support future enhancements to match program and service costs with the future determination of the right program and service mix to achieve education outcomes**
   - **capital maintenance costs can be determined**
   - **capital investment and financing information can be easily determined**
   - **the information is comparable among school divisions, is available in a timely manner, and is readily available to the public**

   Work in this area should begin in April 2004, with an initial completion date of June 2005.

Multiple school systems

We heard concerns about duplication in the education system as a result of multiple school systems operating in the province. Many of the concerns related to having both public and separate school systems in one geographic centre. Other concerns were expressed about duplication with the minority language school system, historical high schools, associate schools, Hutterite schools and home-based education.

There are constitutional and legal requirements for the current multiple school system and it is outside the mandate of the Commission to explore the options available in this regard. There are opportunities, however, for the systems to work together to share costs in areas like facilities, transportation, technology and learning resource procurement, education specialist services, and others. On this basis we recommend:

10. **The province facilitate discussion among the multiple[90] school systems on opportunities for the systems to share costs in areas like facilities, transportation, technology and learning resource procurement, education specialist services, and others. The process to facilitate this discussion should be established by June 2004.**

Property tax policy and the assessment system

The issue of property tax policy and assessment is not specifically part of the Commission's mandate. However, it came up at every meeting and was mentioned in nearly all written submissions so it is necessary to address the concerns in some limited way.

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[90] Public and separate school systems, minority language school system, historical high schools, associate schools, Hutterite schools and home-based education.

The main concerns can be summarized as follows:

- The overall system is complex and not understood. It is not clear to the average taxpayer who should be held accountable for changes to his or her annual property taxes
- Changes in assessment since 1996 have caused large shifts in the property tax base, particularly the shift from 1996 to 1997 when assessed values were updated by 29 years. Although both levels of government use tax policy tools which help mitigate some of these shifts, some boards and property owners are finding these shifts difficult to manage. Stability of this tax base has been eroded.
- Governments have tried to mitigate or phase in some changes in assessment and tax policies but not others. For example, the shift of acreage property valuation from agriculture to residential resulted in property taxes more than doubling in one year for many of these ratepayers. This change was not phased in.
- Provincial percentage of value tax policy appears to favour some properties over others. The province needs to be clear on its objectives for this policy.
- Mill rate factors applied by some local governments cause inequity among property classes.

The following specific issues also came up on a regular basis:

- seasonal residential and farm land taxation policy
- education property tax in provincial parks

On this basis, we recommend:

11. In conjunction with SAMA and local governments, the province should create greater:

- **stability in tax policy and the assessment system**
- **consistency in the application of property tax policy and transition strategies for both levels of government**
- **transparency and understanding of the objectives of property tax policy for both levels of government**

A strategy to effect the recommended changes should be developed by January 2005.

We further recommend government change the education property tax structure to remove education property tax from seasonal residential property. A person should pay education property tax on only one property unless that property was revenue generating.

The province develop specific strategies to address the removal of mill rate factors for education property tax purposes, and application of education property tax on permanent residential and commercial property in provincial parks.

Implementation

We have outlined our main recommendations for reducing reliance on education property taxes and fiscal inequity in the financing of K-12 education. We have also addressed other related and important issues that arose during our consultations and analysis. We feel the administrative costs of these recommendations and any costs to facilitate implementation should be covered through existing resources.

The recommendations result in transfers of taxation impact for taxpayers and adjustments in revenue levels for school divisions. The complete implementation of the $300 million property tax reduction will be phased in over five years. These impacts must be managed over time so that boards of education and taxpayers have an opportunity to adapt.

Introducing a provincial education property tax has implications for the municipalities who will collect it on the province's behalf. Their expertise in this area is necessary to implement and collect the provincial education property tax.

The issue of property tax policy and assessment is not specifically part of the Commission's mandate. However, it came up at every meeting and was mentioned in nearly all written submissions so it is necessary to address the concerns in some limited way.

Administrative costs of these recommendations and any costs to facilitate implementation should be covered through existing resources.

Restrictions on mill rate increases for boards of education and municipalities are also part of our recommendations. Again, local governments need to be involved in how these restrictions are developed and implemented.

Changes to the grant program and the information collected from school divisions requires the support and expertise of boards of education, their staff and other key program and financial experts in the K-12 education sector.

When implementing the provincial education property tax and reporting the full provincial funding of School^{PLUS} government will need to demonstrate that it has achieved the intent of these recommendations. This will require that a number of departments work collaboratively so government can introduce a reporting mechanism for the provincial property tax and enhance its reporting mechanisms for School^{PLUS}.

Given the magnitude of the impacts, the time frame for implementation, and the number of sectors affected, government will require coordinated and collaborative support to make sure these recommendations are successfully implemented. On this basis we recommend:

Given the magnitude of the impacts, the time frame for implementation, and the number of sectors affected, government will require coordinated and collaborative support to make sure these recommendations are successfully implemented.

12. In consultation with representatives of the education, local government, agriculture and business sectors, the Departments of Learning and Government Relations and Aboriginal Affairs develop an implementation plan for government. The objectives of this plan would be to:

- **implement the phase-in of the provincial education property tax mill rate on commercial and GIL properties**
- **implement a transition plan to phase in the redistribution impacts of the increased general revenue contribution and the provincial mill rate**
- **implement restrictions on school board and municipal mill rate increases**
- **implement changes to the School Tax Equalization Program**
- **implement changes to the definition and collection of school division financial and statistical information**

Recommendations

6

Summary of recommendations

"The new finance system should not set a concept of quality education for all children, not limit to curriculum education. They should pay the full cost of education including the cost of facilities, preschool, and new professional models for delivery of education programs."

The Board of Education for Saskatoon Catholic Schools

To reduce the over reliance on property taxation to fund education we recommend:

1. The province provide education property tax relief equally across all property classes through an injection from the general revenue fund of $200 million in 2005-06, increasing to $300 million over the subsequent four year period.

   This new revenue would result in an average education property tax reduction of nearly 30% across all property classes, effective in the 2005 property tax year.

2. The province finance the initial $200 million of new revenue by increasing the provincial sales tax to 7% and expanding its base to include restaurant meals and snack foods, effective April 2005.

   This would result in a *shift* from education property tax to sales tax, not an overall tax *increase*. This would result in a provincial revenue to local property tax ratio of almost 60:40 in 2005.

3. The province provide the additional $100 million, by phasing in $25 million per year, from 2006-07 to 2009-10.

   The government can finance this by reducing expenditures and/or assigning a portion of increased revenue growth directly to further education property tax reductions for all property classes.

   The new revenue must be displayed prominently to identify that this funding is in addition to other increases that would have taken place to the school finance budget as a result of program enhancements.

   This would achieve a provincial revenue to local property tax ratio of almost 70:30 at the end of the four years.

   On average, education property taxes would be reduced by nearly 43% from 2003 levels.

To reduce inequity in the K-12 financing system we recommend:

4. The province implement a provincial education mill rate on all commercial[1] and grants in lieu properties effective April 2005. The initial mill rate shall be based on:

   - the rate required to generate the same net amount of education property tax revenue from these properties as the school divisions' collected in 2004 (estimated to be $250 million for 2003)
   - a reduction to this amount based on these property classes' proportionate share of the overall reduction in education property tax resulting from the increased general revenue contribution of $200 million in 2005, and the further $25 million per year for four years
   - the implications of phasing in a uniform provincial education mill rate on these properties

   All revenue generated from the provincial education property tax shall be distributed in an equalized manner to all school divisions in the province.

   Municipalities will collect the property tax on behalf of the province.

   Government will establish the provincial mill rate in the annual budget.

   The education property tax revenue received by the province should be set up in a separate fund with changes to the fund reported annually.

   Combined with recommendation 1, the result is all school divisions receiving a provincial grant. It will result in an overall reduction in revenue from education property tax of nearly 43% and the opportunity for a mill rate reduction for over 90% of school divisions. The assessment pooling will also stabilize long-term equity among school divisions.

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[1] *Commercial includes commercial, industrial, pipelines, railways, elevators and potash classifications.*

5. The province establish a task force to recommend to the Minister of Learning revised Saskatchewan school division boundaries to increase equity among school divisions and maintain local responsiveness and accountability.

   The task force should be appointed by April 2004. It would consult with school divisions and other interested parties with respect to the revised boundaries and provide a report and recommendations to the Minister of Learning by December 31, 2004. This would permit the government to announce the new school division boundaries by May 2005. Elections for board representatives can be held in October 2005. Restructured school divisions would be in place by January 1, 2006.

   This will build on recommendation 4 to further stabilize long term equity among school divisions.

To support education property tax reduction and improved equity we recommend:

6. The province limit the ability of boards of education and municipalities to increase mill rates through the transition period (the first three years) so ratepayers enjoy the benefit of the education property tax reduction. Implementation should consider exceptions to recognize:

   - reasonable cost increases for local governments
   - transition of mill rate changes among school divisions

   The Departments of Learning and Government Relations and Aboriginal Affairs should work with boards of education and municipalities to plan for exceptional circumstances and the practical implementation of this recommendation. These plans should be complete by April 2005 to ensure the benefits of the increased general revenue contributions are immediately reflected in the 2005 local mill rates.

7. The province revise the current Foundation Operating Grant program in conjunction with school divisions and K-12 education community representatives, renaming it the "School Tax Equalization Program" (STEP). The revision should address at least the following issues:

   - ensuring recognized costs more closely reflect the cost to provide programs and services
   - clarifying differences between urban and rural basic rates
   - increasing simplicity and transparency
   - funding School^PLUS
   - recognizing the costs to maintain school division capital

   Changes to the grant program should be complete by April 2006.

8. The province distinctly and transparently account for the full amount of funding appropriated from each government department for the School^PLUS program with the longer view of reporting all of the funding available for the integrated service model for Saskatchewan children and youth.

   Implementation should be effective with the April 2004 budget year.

9. The province and school divisions work together to implement changes to the definition and collection of school division financial and statistical information so that:

   - program and service costs can be easily determined
   - costs for human service delivery can be easily differentiated from "traditional" education program and service costs
   - the reason for year-over-year cost increases is easy to determine; year-over-year changes to program and service costs can be compared to factors that drive school board costs (e.g. number of educators and number of students)

> *"Reports from the early years of the last century indicate a struggle to find an education tax system that would be fair to both the urban and rural dwellers. The system in place at that long ago essentially the same as the system of today — a system based on values of property. This province has struggled for 100 years to find a fair system of funding education tax. During those years the approach to funding education has remained relatively unchanged: the same based system. Without a change in our approach to funding education, there will appear to have any fair equity."*
>
> **RM of Big Quill**

"The needs of students should be the prime consideration and should underpin discussions concerning how best to finance education in Saskatchewan . . ."

Souris Moose Mountain School Division

". . . we feel it is important to be speaking about how to move beyond the property tax for services like schools. The current structure belongs to the early part of the last century when most families farmed, schools were local, and farm property was a much larger component of the province's asset base."

The Saskatchewan Real Estate Association

- the definition and collection structure is flexible to support future enhancements to match program and service costs with the future determination of the right program and service mix to achieve education outcomes
- capital maintenance costs can be determined
- capital investment and financing information can be easily determined
- the information is comparable among school divisions, is available in a timely manner, and is readily available to the public

Work in this area should begin in April 2004, with an initial completion date of June 2005.

10. The province facilitate discussion among the multiple school[illegible] systems on opportunities for the systems to share costs in areas like facilities, transportation, technology and learning resource procurement, education specialist services, and others. The process to facilitate this discussion should be established by June 2004.

11. In conjunction with SAMA and local governments, the province should create greater:
    - stability in tax policy and the assessment system
    - consistency in the application of property tax policy and transition strategies for both levels of government
    - transparency and understanding of the objectives of property tax policy for both levels of government

A strategy to effect the recommended changes should be developed by January 2005.

We further recommend government change the education property tax structure to remove education property tax from seasonal residential property. A person should pay education property tax on only one property unless that property was revenue generating.

The province develop specific strategies to address the removal of mill rate factors for education property tax purposes, and the application of education property tax on permanent residential and commercial property in provincial parks.

To facilitate implementation we recommend:

12. In consultation with representatives of the education, local government, agriculture and business sectors, the Departments of Learning and Government Relations and Aboriginal Affairs develop an implementation plan for government. The objectives of this plan would be to:
    - implement the phase-in of the provincial education property tax mill rate on commercial and GIL properties
    - implement a transition plan to phase in the redistribution impacts of the increased general revenue contribution and the provincial mill rate
    - implement restrictions on school division and municipal mill rate increases
    - implement changes to the School Tax Equalization Program
    - implement changes to the definition and collection of school division financial and statistical information

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[illegible] Public and separate school systems, minority language system, historical high schools, associate schools, Hutterite schools, and home-based education.

Impact of our recommendations

The Commission believes its recommendations will have the following impact on the education system and the manner in which it is financed. By 2009, our recommendations will:

1. Provide greater equity and fairness for all education taxpayers by:
   - reducing education property taxes for all classes of property taxpayers by an average of nearly 43%
   - shifting to taxes that are more based on ability to pay, and are more income sensitive
   - shifting more of the funding responsibility to the provincial government by increasing the provincial sales tax by one percentage point, expanding the Provincial Sales Tax base and redirecting expenditure priorities of government and through longer term revenue growth
   - moving to an overall provincial tax structure that is less regressive
   - ensuring the education property tax reduction benefit is not lost to the taxpayer
   - ensuring that taxpayers who have had an unfair advantage begin to pay at rates similar to others
2. Improve education equity and opportunity for students by:
   - reducing financial disparity among school divisions. The school divisions with the highest assessment per pupil are currently 13 times wealthier than the provincial average. This will be reduced so that they are less than 3 times as wealthy as the provincial average.
   - providing a provincial grant to all school divisions
   - restructuring school divisions to reduce inequities
3. Maintain the competitiveness of the province by:
   - ensuring all property classes receive a similar education property tax reduction
   - maintaining a Provincial Sales Tax that is the lowest in Canada among provinces that have a sales tax
   - changing from an education property tax system that has the highest taxation levels in Canada ($681 per capita in 2002) to one that, at approximately $400 per capita by 2009, is closer to the national average ($357 per capita in 2002)
   - making the education property tax system more competitive with 2002 per capita levels in Manitoba ($417), Alberta ($494), Ontario ($455), and British Columbia ($292)
4. Sustain a high quality education system and better position the education system for the future by:
   - restructuring school divisions
   - providing per pupil grant increases at the rate of inflation
   - supporting decision making by improving accountability and information management systems
   - improving the grant distribution system to better reflect the cost of education
5. Maintain appropriate local autonomy for school divisions by:
   - ensuring that, on average, school divisions maintain the ability to raise 20% of education revenue through local education property taxes on agricultural and residential property
   - limiting restrictions on education property tax levies during the transition process to three years and building in flexibility during the transition process

"We believe, as did SUMA and SARM, that sources of revenue that could be used by the provincial government to replace local school tax levies could include one percentage point of provincial sales tax and/or a tax on basic income."

Town of Carlyle

"We believe that as a community of committed stakeholders we can collectively address inequities in educational opportunities and in educational financing, and that through a collaborative effort, our children and our ratepayers will all come out as winners!"

The Board of Education, Prince Albert R.C.S.S.D.

6. Improve the tax fairness and simplicity of tax administration in the province by:
    - introducing no new taxes
    - using existing local and provincial governance structures to administer the system
    - improving transparency by reducing the reliance on education property taxes, improving the tax policy and assessment system, and providing better financial and statistical information

The Commission on financing K-12 Education was charged with finding the best way to fund K-12 education. We believe that we have recommended a balanced approach that provides the greatest degree of fairness and equity for students and taxpayers in the Saskatchewan context.

"The R.M. of White Valley council believes that all our children are entitled to an education. We also believe that we are all responsible for funding the education of our youth from Kindergarten to Grade 12. That being said we do not believe that the majority of the funding should be derived from property taxpayers."

RM of White Valley

"We must learn from the experiences of provinces such as Ontario, New Brunswick, and Alberta that have their K-12 systems funded entirely by the province. This has proven not to be the answer."

Estevan Public School Board

Timing of implementation

The following is a summary of the major timelines for implementation of the recommendations:

April 2004
- Establish a school division boundaries task force
- Start planning with local governments to limit changes to mill rates effective April 2005
- Establish a new provincial funding reporting process for School^{PLUS}

June 2004
- Process to facilitate discussion among multiple school systems is established

December 2004
- Boundary task force recommendations to government

January 2005
- Strategy to make changes to property taxation policy and the assessment system has been developed

Provincial Budget 2005/06
- Province shifts $200 million from education property tax financing to general revenues
- Implement a one percentage point increase in PST and expand the PST base to include restaurant meals and snack foods
- 2005 provincial mill rate established for commercial and grants-in-lieu properties

May 2005
- Government announces new school division boundaries

October 2005
- Elections for restructured board representatives

January 2006
- Restructured school divisions in place

Provincial Budget 2006/07
- Province adds an additional $25 million from general revenues for education property tax relief. Total to date $225 million.

April 2006
- Initial changes to the operating grant program are complete and implemented

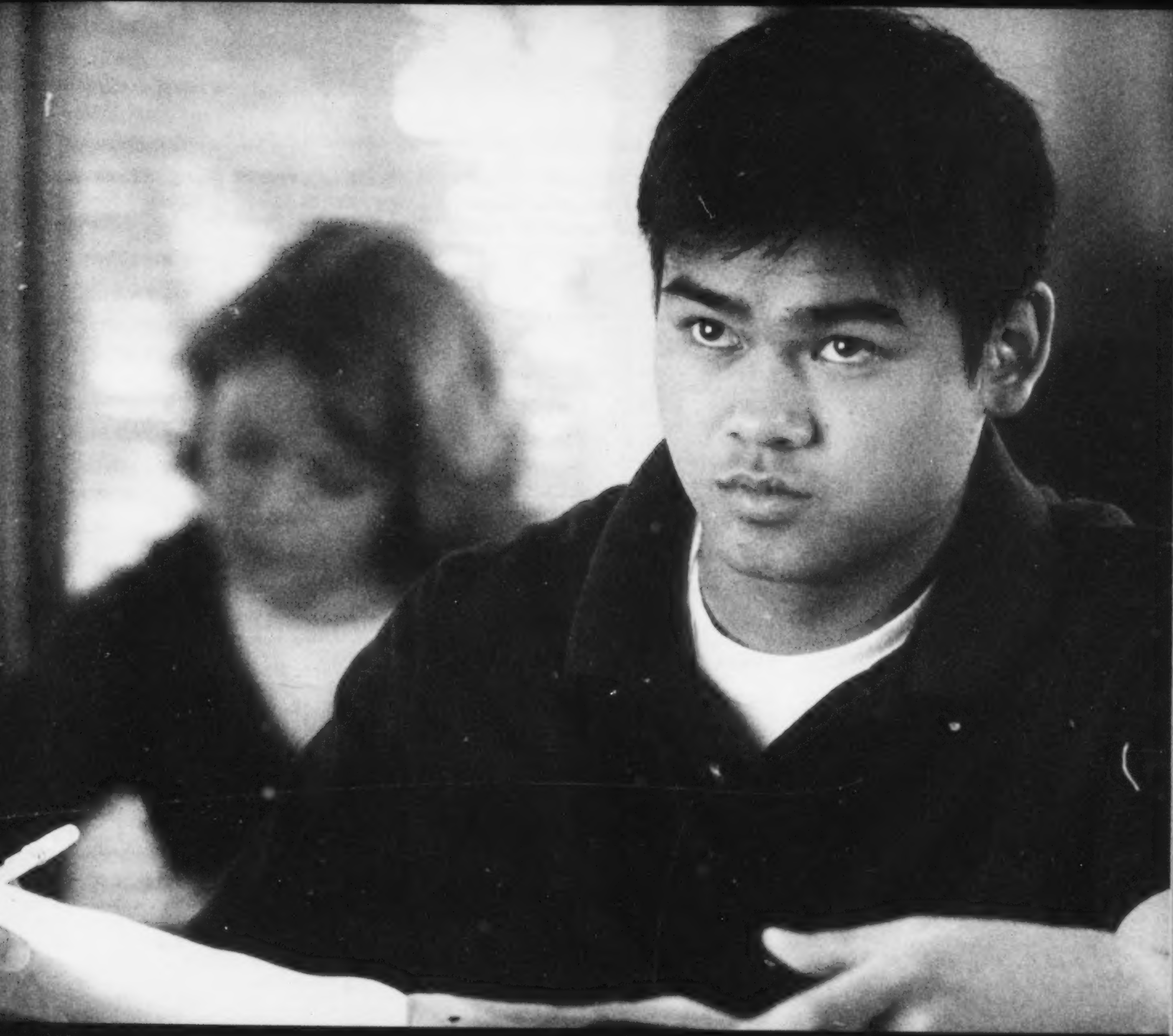
Provincial Budget 2007/08
- Province adds an additional $25 million from general revenues for education property tax relief. Total to date $250 million.

Provincial Budget 2008/09
- Province adds an additional $25 million from general revenues for education property tax relief. Total to date $275 million.

Provincial Budget 2009/2010
- Province adds an additional $25 million from general revenues for education property tax relief. Total to date $300 million.

"… the Saskatoon Board of Education provides strong programming in special needs education as well as aboriginal education. Funding levels should recognize the costs associated with the programming offered by the local board. It is important that the bulk of funding be provided unconditionally in order to maintain local autonomy and to recognize the diversity of programming among school divisions."

Hildred Richardson, Saskatoon



Appendices

7

Appendix A – Schedule of tables

Table 1 – Major Tax Revenues, OECD member countries (% of GDP, 1999)

	Taxes on Personal Income	Taxes on Corporate Income	Social Security Contributions	Payroll Taxes	Taxes on Property	Taxes on Goods and Services
Canada	**14.6**	**3.7**	**5.2**	**0.8**	**3.9**	**9.4**
Mexico	n/a	n/a	3.0	–	**n/a**	8.6
U.S.	11.8	2.4	6.9	–	**3.1**	4.7
Australia	13.2	4.9	–	2.0	**2.9**	7.6
Japan	4.8	3.4	10	–	**2.9**	5.3
Korea	3.7	2.1	4.1	0.1	**3.2**	9.5
New Zealand	14.9	4.0	–	0.3	**2.1**	12.9
Austria	10.1	1.8	15.1	2.7	**0.6**	12.4
Belgium	14.0	3.6	14.5	–	**1.5**	11.6
Czech Republic	5.2	3.8	17.6	–	**0.6**	13.1
Denmark	25.5	3.0	2.1	0.3	**1.8**	16.3
Finland	14.7	4.2	11.8	–	**1.1**	14.3
France	8.1	2.9	16.6	0.9	**3.2**	12.3
Germany	9.4	1.8	14.8	–	**0.9**	10.6
Greece	5.3	3.2	11.5	0.2	**1.9**	13.6
Hungary	6.8	2.3	13.2	0.1	**0.6**	15.8
Iceland	12.7	1.5	2.9	–	**2.5**	16.6
Ireland	9.7	3.9	4.2	0.1	**1.8**	12.4
Italy	11.4	3.3	12.3	–	**2.0**	11.9
Luxembourg	7.8	7.3	10.9	–	**4.0**	11.6
Netherlands	6.4	4.2	16.8	–	**2.2**	11.8
Norway	11.7	3.2	10.2	–	**1.0**	15.5
Poland	8.1	2.6	9.9	0.2	**1.1**	13.2
Portugal	5.8	4.0	8.7	–	**1.1**	14.2
Slovak Republic	4.4	2.8	14.2	–	**0.6**	12.0
Spain	6.9	2.8	12.2	–	**2.2**	10.5
Sweden	18.6	3.2	13.2	3.9	**1.9**	11.2
Switzerland	10.0	2.5	12.2	–	**2.9**	6.8
Turkey	7.4	2.4	5.8	–	**0.9**	11.2
United Kingdom	10.5	3.8	6.2	–	**3.9**	11.7
OECD average*	**10.1**	**3.3**	**9.5**	**0.4**	**1.9**	**11.6**

Source: Organisation for Economic Co-operation and Development. Revenue Statistics 1965-2000 (Paris: OECD, 2001), quote in Perry, David B., Fiscal Figures. International Tax Comparisons. Canadian Tax Journal Vol. 50. No. 3. Table 2

Table [illegible] – Provincial and Local Government Taxes and Fees (% of GDP)

	Provincial Gov't Taxes and Fees	Local Gov't Taxes and Fees	COMBINED PROVINCIAL AND LOCAL GOV'T TAXES AND FEES	Provincial Gov't Property Taxes	Local Gov't Property Taxes	COMBINED PROVINCIAL AND LOCAL GOV'T PROPERTY TAXES [1]
BC	14.1%	3.3%	17.4%	1.3%	2.1%	3.3%
AB	8.4%	3.5%	11.9%	0.8%	2.4%	3.2%
MB	14.1%	4.4%	18.5%	0.6%	3.3%	3.9%
SK	**14.0%**	**4.8%**	**18.9%**	**0.0%**	**3.9%**	**3.9%**
ON	13.1%	5.4%	18.5%	0.2%	4.4%	4.4%
QC	18.5%	4.6%	23.1%	0.0%	3.6%	3.6%
NB	13.6%	2.6%	16.2%	1.2%	2.0%	3.1%
NS	13.2%	3.9%	17.2%	0.0%	3.2%	3.2%
PEI	15.7%	1.9%	17.5%	1.2%	1.4%	2.6%
NFLD	13.8%	2.3%	16.1%	0.0%	1.8%	1.8%

1) Includes grants in lieu, special assessments, other property related taxes

Source: Statistics Canada, 2000

Table [illegible] – Property Taxes in Canada – 1999

	Average Property Taxes ($)	Effective Property Tax Rates (%)
BC	1,430	0.65
AB	1,380	1.01
SK	**1,480**	**1.76**
MB	1,770	1.92
ON	2,230	1.22
QC	2,030	1.86
NB	900	1.13
NS	990	1.13
PEI	1,010	1.09
NFLD	640	0.90
Canadian Average	**1,830**	**1.22**

Data Source: Statistics Canada Survey of Financial Security: Property Taxes, July 2003

Table 4 – Estimated Property Taxes for Canadian Cities – 2003 ($)

City	Detached Bungalow	Executive 2-storey	Standard 2-storey Dollars	Standard Townhouse	Senior Executive	Standard Condo
St. John's (West), NFLD	900	1,600	1,400	700	1,800	1,000
Charlottetown, PEI	1,800	n/a	2,200	1,200	3,200	1,300
Fredericton, NB	1,675	2,815	1,774	1,689	3,603	1,238
Montreal (Kirkland), QC	3,750	5,125	2,075	2,075	n/a	2,025
Jonquiere, QC	1,670	2,850	2,279	1,634	4,303	1,628
Toronto (Etobicoke), ON	3,000	4,500	3,500	1,900	5,500	1,550
Oshawa, ON	2,414	3,279	2,370	2,118	3,600	1,681
Fort Garry, MB	3,318	4,800	3,001	1,357	3,997	1,357
Saskatoon (North), SK	**2,400**	**3,000**	**2,600**	**1,800**	**4,300**	**1,800**
Edmonton (West End), AB	2,085	2,726	2,378	1,206	4,176	916
Spruce Grove, AB	2,300	2,800	2,400	1,400	3,000	n/a
Vancouver (East), BC	2,700	3,300	1,475	1,475	3,900	775
Kelowna, BC	1,800	2,300	2,100	1,250	2,500	1,100
Average	**2,293**	**3,258**	**2,273**	**1,523**	**3,657**	**1,364**

Source: Royal LePage. Survey of Canadian House Prices Second Quarter. 2003, Issue No. 4

Notes to the table:

- Estimated Fair Market Value for a Detached Bungalow Data is from cities where available.
- Where many cities had data, the community with the average house price for a detached bungalow was selected.
- Because of the large number of communities in Ontario, Quebec, Alberta and British Columbia, 2 communities were used in each of those provinces (one large city and a smaller community).
- Nova Scotia did not have estimated property taxes available for any housing type in this survey.
- In Saskatchewan, estimated taxes were only available for Saskatoon.

Table 5 – Estimated Property Taxes and Effective Tax Rates – 2003

City	Estimated Fair Market Value $	Detached Bungalow Estimated Taxes $	Effective Tax Rate %
St. John's (West), NFLD	117,000	900	.77
Charlottetown, PEI	130,000	1,800	1.39
Fredericton, NB	119,000	1,675	1.41
Montreal (Kirkland), QC	164,000	3,750	2.29
Jonquiere, QC	87,100	1,670	1.92
Toronto (Etobicoke), ON	330,000	3,000	.91
Oshawa, ON	164,800	2,414	1.47
Fort Garry, MB	140,000	3,318	2.37
Saskatoon (North), SK	**145,000**	**2,400**	**1.66**
Edmonton (West End), AB	180,000	2,085	1.16
Spruce Grove, AB	160,000	2,300	1.44
Vancouver (East), BC	360,000	2,700	.75
Kelowna, BC	164,000	1,800	.11
Average	**173,915**	**2,293**	**1.32**

Data Source: Royal LePage, Survey of Canadian House Prices Second Quarter, 2003, Issue No. 4

Note: The effective tax rate is calculated by dividing the estimated taxes by the estimated fair market value

Table 6 – Inter-provincial Property Taxes $s Per Capita

Province	Per Capita Property Tax Revenue
BC	1,045
AB	1,189
SK	**1,198**
MB	854
ON	1,419
QC	889
NB	772
NS	738
PEI	631
NFLD	387
Weighted average	1,135

Source: Saskatchewan Finance, Based on Equalization Program Data for 2001-02, as of November 2003

** Averages include taxes paid by all taxpayers (not just individuals).*

The weighted provincial average is the per capita amount collected in total for the ten provinces.

Table 2 – Agricultural Property Taxes – 2002

	2002 Gross Property Taxes ($000)	Number of Farms	Property Taxes per Farm ($)	Acres (000s)	Taxes per Acre ($)	Acres Owned	Taxes per Acre Owned ($)
BC	18,031	20,290	889	6,393	2.82	3,769	4.78
AB	100,273	53,652	1,869	52,059	1.93	30,702	3.27
SK*	**218,098**	**50,598**	**4,310**	**64,904**	**3.36**	**39,635**	**5.50**
MB	61,590	21,071	2,923	18,784	3.28	11,730	5.25
ON	94,526	59,728	1,583	13,507	7.00	9,373	10.08
QC*	127,420	32,139	3,965	8,444	15.09	7,050	18.07
NB	2,668	3,034	879	959	2.78	800	3.33
NS	3,117	3,923	795	1,006	3.10	874	3.57
PEI	2,810	1,845	1,523	646	4.35	478	5.88
NFLD	237	643	369	100	2.36	30	7.99
CANADA	628,770	246,923	2,546	166,802	3.77	104,441	6.02

Source: SAFRR Statistics Canada

**In 2002, Quebec rebated $73M and Sask. rebated $15M*

Table 3 – Net Property Taxes as a Percentage of Actual Farm Operating Expenses (minus rebates) by Provinces and Canada – 1995 to 2002

	1995	1996	1997	1998	1999	2000	2001	2002
BC	1.1%	1.1%	1.1%	1.1%	1.1%	1.0%	1.0%	1.0%
AB	2.2%	2.1%	2.0%	2.0%	1.8%	1.7%	1.6%	1.6%
SK	**4.5%**	**4.2%**	**4.4%**	**4.5%**	**4.5%**	**4.3%**	**3.9%**	**4.2%**
MB	2.4%	2.4%	2.4%	2.4%	2.5%	2.4%	2.2%	2.1%
ON	1.8%	1.7%	1.7%	1.5%	1.4%	1.3%	1.3%	1.3%
QC	1.2%	1.3%	1.3%	1.4%	1.2%	1.1%	1.1%	1.2%
NB	0.9%	0.8%	0.9%	0.9%	0.9%	0.8%	0.8%	0.7%
NS	0.9%	0.9%	0.8%	0.9%	0.9%	0.9%	0.8%	0.9%
PEI	1.0%	1.0%	1.0%	1.0%	1.0%	0.9%	0.9%	0.9%
NFLD	0.3%	0.3%	0.4%	0.3%	0.4%	0.3%	0.3%	0.3%
CANADA	2.3%	2.2%	2.2%	2.2%	2.1%	1.9%	1.8%	1.9%

Source: SAFRR, Statistics Canada

Table 8 – Summary of Agricultural Property Taxation

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD
Tax base										
Land	yes	yes	yes	yes	yes	yes	yes	exempt	yes	business tax
Buildings	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	business tax
Residences	mostly exempt	mostly exempt	no	yes	yes	yes	yes	yes	yes	yes
Assessment Ratio										
Land	10 - 15%	10 - 40%	50 - 70%	30%	100%	100%	100%	exempt	10 - 50%	100%
Buildings	100%	100%	exempt	30%	100%	100%	100%	100%	100%	100%
Residences	100%	100%	exempt	45%	100%	100%	100%	100%	100%	100%
Nominal Tax Rates										
Land	0.7 - 1.5%	1.4 - 1.5%	2.3 - 3.6%	3.0 - 4.8%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	exempt	0.05 - 1.74%	0.0 - 1.0%
Buildings	0.7 - 1.5%	1.4 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Residences	0.7 - 1.2%	1.0 - 1.5%	exempt	3.8 - 5.6%	0.2 - 0.5%	0.8 - 1.5%	1.5 - 3.0%	0.8 - 1.05%	0.05 -1.74%	0.0 - 1.0%
Agricultural Tax Programs										
Rebates					before 1998	yes				
Exemptions	yes	yes - buildings	yes - buildings	yes - ESL on land				yes - land		yes
Deferrals Assessment	yes	yes	yes	yes		yes - education	yes	yes	yes	
Maximum Tax Rate					since 1998		yes			
Effective Tax Rate										
1996	0.14%	0.38%	0.90%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.36%	0.90%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences)										
1996	0.14%	0.30%	0.66%	0.67%	0.23%	0.49%	0.37%	0.30%	0.29%	0.14%
1997	0.13%	0.28%	0.68%	0.65%	0.21%	0.47%	0.35%	0.29%	0.26%	0.14%
Effective Tax Rate (with adjustment for residences and asset values)										
1997	0.13%	0.28%	0.68%	0.65%	0.42%	0.53%	0.33%	0.29%	0.31%	0.14%

Source: "Agricultural Property Tax Concessions and Government Transfers to Agriculture: October 2002", Agriculture and Agri-Food Canada, December 2002, pg. 45, table 5.1

Table 10 – Tax Rates on Businesses, 1997

	Calgary	Edmonton	Lethbridge	Medicine Hat	Red Deer	Saskatoon	Brandon	Winnipeg
Effective Tax Rates on Business Property (%)								
	4.18	3.61	2.71	3.08	2.23	4.50	3.99	5.29
Property and Business Tax Burdens (%)								
Share of business property in total property value	23.63	27.07	26.79	28.54	27.73	22.05	24.46	23.53
Share of business taxes in total taxes	46.25	47.01	39.50	40.90	40.80	35.64	49.51	49.17
Tax Burdens by City (%)								
Share of education levy in total taxes	40.33	40.84	44.74	55.41	48.10	55.66	51.79	43.71
Share of business education levy in education levy	30.21	37.31	33.63	49.32	37.17	35.64	42.75	62.50

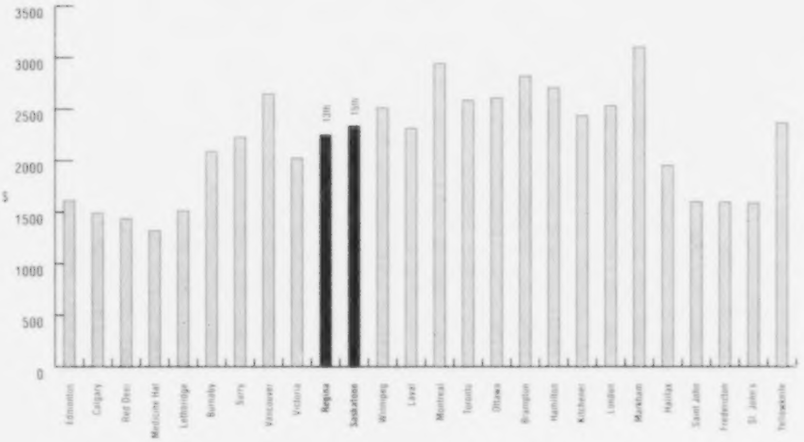
Data Source: The Business and Property Tax in Saskatoon, Donald A. Gilchrist and Larry V. St. Louis, 1997.

Note: effective tax rate was defined as the ratio of the tax levy to the market value of the property tax.

The rate includes the business tax with the municipal and education levy on the real property tax base.

Gilchrist's estimates based on information provided by cities; data from most recent available years (prior to 1997).

Table 11 – Property Taxes on a Sample House, 2002

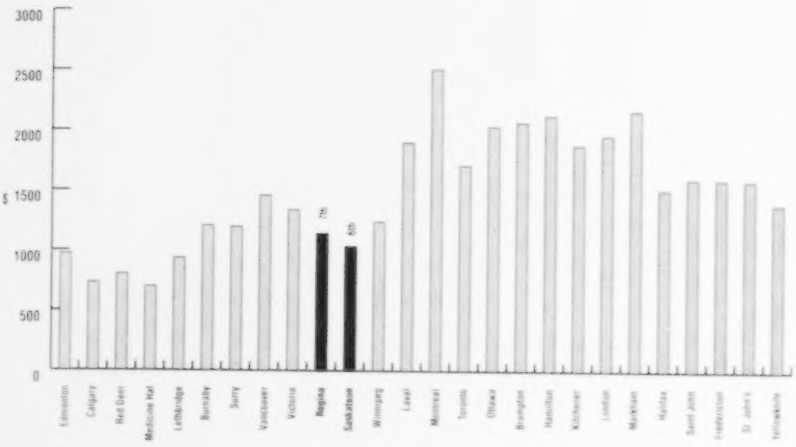


Data Source: City of Edmonton 2002 Residential Property Taxes and Utility charges Survey

Note to chart:

The Residential Property Taxes and Utility Charges Survey calculated net property tax by reflecting homeowner grants or credits for the cities of Burnaby, Surrey, Vancouver, Victoria and Winnipeg. However, it would not have reflected the property tax rebate provided to Saskatchewan agricultural producers in that year. For this reason, all homeowner grants, credits and rebates have not been included in the calculations.

Table 12 – Property Taxes (School Taxes Removed) on a Sample House – 2002



Source: City of Edmonton 2002 Residential Property Taxes and Utility charges Survey

Note to chart:

The Residential Property Taxes and Utility Charges Survey calculated net property tax by reflecting homeowner grants or credits for the cities of Burnaby, Surrey, Vancouver, Victoria and Winnipeg. However, it would not have reflected the property tax rebate provided to Saskatchewan agricultural producers in that year. For this reason, all homeowner grants, credits and rebates have not been included in the calculations.

Table 13 – 2003 Taxes Payable – Impact Analysis

	Single Person @ $35,000	% of Taxes	Senior Couple @ $30,000	% of Taxes	Dual Income Family @ $50,000	% of Taxes	Dual Income Family @ $75,000	% of Taxes	Dual Income Family @ $100,000	% of Taxes
Status Quo:										
Provincial Income Tax	$2,718	52%	$463	16%	$2,510	42%	$5,308	57%	$8,323	65%
Retail Sales Tax	$516	10%	$410	15%	$803	13%	$1,082	12%	$1,260	10%
Gasoline Tax	$150	3%	$150	5%	$300	5%	$300	3%	$300	2%
Property Tax	$1,800	35%	$1,800	64%	$2,400	40%	$2,600	28%	$3,000	23%
Total Provincial Taxes (% of income)	$5,184	15%	$2,823	9%	$6,013	12%	$9,290	12%	$12,883	13%
Option: Increase PST to 7% and reduce education portion of property tax by 20%										
Provincial Income Tax	$2,718	54%	$463	17%	$2,510	43%	$5,308	58%	$8,323	65%
Retail Sales Tax	$602	12%	$487	18%	$937	16%	$1,262	14%	$1,470	12%
Gasoline Tax	$150	3%	$150	6%	$300	5%	$300	3%	$300	2%
Property Tax	$1,609	32%	$1,609	59%	$2,146	36%	$2,324	25%	$2,682	21%
Total Provincial Taxes (% of income)	$5,079	15%	$2,709	9%	$5,893	12%	$9,194	12%	$12,775	13%
Option: Increase PST to 7%, include restaurant meals and reduce education portion of property tax by 30%										
Provincial Income Tax	$2,718	54%	$463	17%	$2,510	43%	$5,308	57%	$8,323	64%
Retail Sales Tax	$672	13%	$551	21%	$1,071	18%	$1,456	16%	$1,764	14%
Gasoline Tax	$150	3%	$150	6%	$300	5%	$300	3%	$300	2%
Property Tax	$1,514	30%	$1,514	57%	$2,018	34%	$2,187	24%	$2,523	20%
Total Provincial Taxes (% of income)	$5,054	14%	$2,678	9%	$5,899	12%	$9,251	12%	$12,910	13%

The percentage values show both the % of total taxes (to identify the relative proportion of the tax) and, in the "total taxes" row, the % of income (which shows the proportion of income spent on total taxes).

Assumptions:

The provincial income tax is calculated for the Senior Couple assuming income is earned 60 per cent by one spouse and 40 per cent by the other. Both of the seniors are eligible for the 'Age amount, Pension income amount, and the Senior Supplement non-refundable tax credits'.

The provincial income tax of the Dual Income Family profiles is calculated using the assumption that income is earned by both spouses, with one earning 60 per cent and the other earning 40 per cent of total family income. The families pay $3,000 in child care expenses annually.

Sales tax is based upon average family expenditure baskets at the total income levels from the Survey of Family Expenditures (Statistics Canada). The Saskatchewan provincial sales tax was then estimated based on the taxable expenditures multiplied by the tax rate of 6%.

Gasoline Tax is based on annual consumption of 1,000 litres by the single and the senior couple, and 2,000 litres for each of the families.

The Survey of Family Expenditures was also used to approximate how much each of these profiles would spend, on average, on restaurant meals; the PST on this figure was calculated accordingly.

Property taxes were estimated using the Royal LePage Survey of Canadian House Prices Second Quarter, Issue No. 4.
The housing types were selected based on possible square footage requirements for the family type.
Senior couple @ $30K: standard condo (900 sq. ft) — estimated taxes $1,800
Single @ $35K: standard condo (900 sq. ft) — estimated taxes $1,800
Family @ $50K: detached bungalow (1,200 sq. ft.) — estimated taxes $2,400
Family @ $75K: standard 2 storey (1,500 sq. ft.) — estimated taxes $2,600
Family @ $100K: executive detached 2 storey (2,000 sq. ft.) — estimated taxes $3,000

Properties from North Saskatoon were selected as data was available for each one of the housing types in this area. Property taxes include all municipal, education and library taxes levied, however the reduction only applies to the education portion (estimated to be 53% of the total tax levied on residential property in 2000 – GRAA's Mill Rate Survey).

'Property Tax' includes both municipal and school taxes; however, the reduction only applies to the education portion of the tax (estimated to be 53% of the total tax levied on residential property in 2000 according to GRAA's Mill Rate Survey).

Table 12 – Percentages of Revenue for Public K-12 Schools 2001-02

	Local	State	Federal
Median	42.9	49.7	7.5
High	85.4	89.3	15.3
Low	1.7	28.5	2.6
High	District of Columbia	Hawaii	Mississippi
Low	Hawaii	Nevada	New Jersey

Source: Rankings and Estimates. National Education Association. May 2003 p.41 & 42

Table 13 – 2001 Provincial and Territory Comparison of Property Revenues for Education

Province or Territory	A Locally Levied Property Tax (% of Total)	B Provincially Levied Property Tax (% of Total)	C Total Portion of School Funding Raised From Property Taxation (% of Total)	D Provincial General Revenue Contribution to Education Cost (% of Total)	E Total Provincial Share of Education Cost (% of Total)
BC	0	29.4	29.4	70.6	100
AB	4.4	31.6	36	64	95.6
SK	**59**	**0**	**59**	**41**	**41**
MB	32.1	14.1	34.1[1]	61.3[2]	75.4
ON	0	41.2	41.2	58.8	100
QC	21.9	0	21.9	78.1	78.1
NB	0	0	0	100	100
NS	16.7	0	16.7	83.3	83.3
PEI	0	0	0	100	100
NFLD	0	0	0	100	100
NWT	8.2	2.0	10.2	89.8	91.8
YT	0	0	0	100	100
Nunavut	0	0	0	100	100

Note: For the Province of Manitoba:

1) Total of A and B, 46.2%, is reduced by 12.1% to reflect the application of the property tax credit for a net total of 34.1%.

2) Provincial general revenue includes 43.6% for operating and capital grants, 12.1% for the property tax credit and 5.6% for provincial contributions to the teachers' pension fund for a total of 61.3%.

3) Columns C and D add to 95.4% instead of the normal 100%. The remaining 4.6% represents the portion of revenue received by school divisions from non-provincial sources (e.g. Federal Government, First Nations Bands, etc.).

Source: June 2002 Survey of Provincial and Territory Departments of Education. Prepared by Saskatchewan Learning.

Table 16 – 2003 Provincial and Local Government Expenditures on Primary and Secondary Education (Per Capita)

BC	1,084
AB	1,288
SK	1,191
MB	1,231
ON	1,170
QC	1,037
NB	1,010
NS	1,011
PEI	1,222
NFLD	1,217
CANADA	1,141

Table 17 – 2003 Provincial and Local Government Expenditures on Primary and Secondary Education (% of 2002 GDP)

BC	3.3%
AB	2.7%
SK	3.5%
MB	3.9%
ON	3.0%
QC	3.2%
NB	3.7%
NS	3.6%
PEI	4.5%
NFLD	4.0%
CANADA	3.1%

Data Source: Statistics Canada and Saskatchewan Bureau of Statistics

Table 18 – 2003 Provincial Government Expenditures on Primary and Secondary Education (Per Capita)

BC	1,077
AB	1,219
SK	587
MB	839
ON	745
QC	920
NB	1,012
NS	868
PEI	1,165
NFLD	1,240
CANADA	904

Table 19 – 2003 Provincial Government Expenditures on Primary and Secondary Education (% of 2002 GDP)

BC	3.3%
AB	2.5%
SK	1.7%
MB	2.6%
ON	1.9%
QC	2.8%
NB	3.7%
NS	3.1%
PEI	4.3%
NFLD	4.1%
CANADA	2.5%

Data Source: Statistics Canada and Saskatchewan Bureau of Statistics

TABLE 20 – Estimated 2002 Effective Mill Rates Including Estimate of Agriculture Land and Buildings

Property Class	Taxable Assessment [1]	School Tax Levies [1]	ETR[3] on Taxable Assessment	% of Value Applied to Property Class	Assessment Grossed Up for % of Value	ETR on Grossed Up Assessment	Assessment Grossed Up & Adjusted for Ag Bldg and Res Exempt [2]
Other agriculture	8,491,366,061	150,029,192	17.67	55%	15,438,847,384	9.72	20,763,225,160
Non-arable agriculture	738,379,658	13,046,017	17.67	50%	1,476,759,316	8.83	1,805,497,840
Residential	15,577,010,040	262,870,221	16.88	70%	22,252,871,486	11.81	22,252,871,486
Seasonal residential	635,334,290	11,750,534	18.50	70%	907,620,414	12.95	907,620,414
Commercial industrial	8,582,969,814	180,575,285	21.04	100%	8,582,969,814	21.04	8,582,969,814
Elevators, pipelines, railways	2,145,742,453	45,143,821	21.04	75%	2,860,989,937	15.78	2,860,989,937
Province	36,170,802,316	663,415,070	18.34		51,520,058,351	12.88	57,173,174,651

Data Source: Taxable Assessment and School Tax Levies – GRAA 2002 School Mill Rate Survey

[1] Information from GRAA did not include assessment and levies broken out among other and non-arable ag land, or commercial industrial and Elevators, Pipelines and Railways. This information is necessary because these classes have different percentages of value. The most recent assessment data(2001) from Learning on school grants had the assessment broken out among these classes. Other agriculture was 92% of total ag assessment; non-arable was 8%. Elevators, pipelines and railways was 20% and commercial industrial other was 80%. We used those percentages to derive tax levies and taxable assessment for other agriculture and non-arable agriculture, and the elevators, pipelines and railways, and commercial industrial.

[2] Ag building and residential value was taken from Stats Canada Value of Farm Capital 1977 to 2002 – land & buildings only for 2002. The total value is 22,568,723,000. It was divided between other ag and non-arable using the same ratios as used in dividing taxable assessment.

[3] ETR is Effective Tax Rate

Table 21 – School Board Operating Expenditures, Property Tax Revenue and Provincial Operating Grants 1975 to 2001 Adjusted for Inflation ($ Millions)

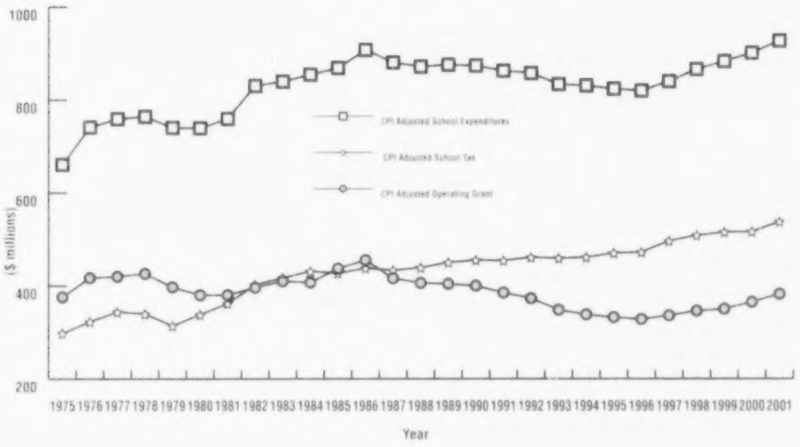


TABLE 22 – Provincial Expenditures 2003 – $ Per Capita

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD	CANADA
Health	2,628	2,174	2,119	2,336	2,122	2,270	2,223	2,231	2,214	2,491	2,257
Social services	1,135	976	1,075	1,153	1,042	1,358	857	871	736	1,102	1,123
Debt charges	638	345	956	1,352	761	1,198	1,288	1,255	793	1,117	868
Resource conservation and industrial development	387	855	598	252	140	383	350	316	707	305	343
Elementary & secondary education	1,077	1,219	587	838	745	920	1,012	868	1,164	1,239	904
Post secondary education	469	478	569	599	362	691	626	442	471	556	498
Protection of persons and property	301	218	326	291	276	279	238	239	250	357	281
Transportation & communication	410	170	318	236	215	378	723	283	600	590	308
Housing	29	36	147	71	80	49	79	70	36	90	70
General government services	85	101	146	174	94	184	119	53	386	156	128
Recreation & culture	72	102	100	94	33	112	53	62	136	88	73
Environment	32	51	92	43	31	62	33	41	93	88	45
General purpose transfers to other government subsectors	6	29	58	87	4	62	129	29	36	90	33
Regional planning & development	23	10	36	75	23	36	41	42	29	38	31
Labour, employment & immigration	16	20	13	23	7	75	38	10	36	26	29
Other expenditures incl research	3	49	8	1	40	53	-	-	-	-	34
TOTAL EXPENDITURES	7,309	6,831	7,147	7,625	5,975	8,111	7,810	6,812	7,686	8,333	7,024

Data Source: Statistics Canada and Saskatchewan Bureau of Statistics

TABLE 23 – Provincial Expenditures 2003 – % of 2002 GDP

	BC	AB	SK	MB	ON	QC	NB	NS	PEI	NFLD	CANADA
Health	8.1%	4.5%	6.2%	7.4%	5.4%	7.0%	8.1%	8.0%	8.2%	8.3%	6.2%
Social services	3.5%	2.0%	3.2%	3.6%	2.7%	4.2%	3.1%	3.1%	2.7%	3.7%	3.1%
Debt charges	2.0%	0.7%	2.8%	4.3%	2.0%	3.7%	4.7%	4.5%	2.9%	3.7%	2.4%
Resource conservation *and industrial development*	1.2%	1.8%	1.8%	0.8%	0.4%	1.2%	1.3%	1.1%	2.6%	1.0%	0.9%
Elementary & secondary education	3.3%	2.5%	1.7%	2.6%	1.9%	2.8%	3.7%	3.1%	4.3%	4.1%	2.5%
Post secondary education	1.4%	1.0%	1.7%	1.9%	0.9%	2.1%	2.3%	1.6%	1.8%	1.9%	1.4%
Protection of persons and property	0.9%	0.5%	1.0%	0.9%	0.7%	0.9%	0.9%	0.9%	0.9%	1.2%	0.8%
Transportation and communication	1.3%	0.4%	0.9%	0.7%	0.6%	1.2%	2.6%	1.0%	2.2%	2.0%	0.8%
Housing	0.1%	0.1%	0.4%	0.2%	0.2%	0.2%	0.3%	0.3%	0.1%	0.3%	0.2%
General government services	0.3%	0.2%	0.4%	0.5%	0.2%	0.6%	0.4%	0.2%	1.4%	0.5%	0.4%
Recreation and culture	0.2%	0.2%	0.3%	0.3%	0.1%	0.3%	0.2%	0.2%	0.5%	0.3%	0.2%
Environment	0.1%	0.1%	0.3%	0.1%	0.1%	0.2%	0.1%	0.1%	0.3%	0.3%	0.1%
General purpose transfers to other government subsectors	0.0%	0.1%	0.2%	0.3%	0.0%	0.2%	0.5%	0.1%	0.1%	0.3%	0.1%
Regional planning and development	0.1%	0.0%	0.1%	0.2%	0.1%	0.1%	0.1%	0.2%	0.1%	0.1%	0.1%
Labour, employment and immigration	0.0%	0.0%	0.0%	0.1%	0.0%	0.2%	0.1%	0.0%	0.1%	0.1%	0.1%
Other expenditures incl. research	0.0%	0.1%	0.0%	0.0%	0.1%	0.2%	0.0%	0.0%	0.0%	0.0%	0.1%
TOTAL EXPENDITURES	22.5%	14.1%	20.9%	24.0%	15.3%	24.9%	28.3%	24.6%	28.6%	27.7%	19.3%

Data Source: Statistics Canada

TABLE 24 – Estimated Provincial Impact of Recommendation on K-12 Education Expenditures
$200M in 2005, $25M per year 2006 to 2009

	2003	2004	2005	2006 (millions)	2007	2008	2009
TOTAL ESTIMATED EXPENDITURES	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**
Provincial Grant	510	510	510	710	735	760	785
Commercial and GIL			183	174	165	156	147
General Revenue Replacing Property Tax			200	25	25	25	25
TOTAL PROVINCIAL SHARE	510	510	893	909	925	941	957
Local Revenue	780	780	396	380	365	349	333
TOTAL ESTIMATED REVENUE	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**
Total Local Revenue Comprised of:							
Local Revenue from Other	75	75	75	75	75	75	75
Local Property Tax	705	705	321	305	289	273	258
Expenditures Net of Other *	1,215	1,215	1,215	1,215	1,215	1,215	1,215
Percentages based on Expenditures Net of Other							
% Provincial	42%	42%	74%	75%	76%	77%	79%
% Local Property Tax	58%	58%	26%	25%	24%	23%	21%
% Property Tax	58%	58%	42%	39%	37%	35%	33%

* *To be consistent with previous display of information, we removed tuition, supplementary and other from expenditures*

2007-2008 expenditure growth is actually negative based on enrolment decline & CPI. Flat-lined at 0%

Local Revenue from Other expected to increase at the same rate as expenditures – flat-lined at 0%

Local Revenue from Other is tuition, supplementary services, and other

Local Revenue from Other 2003 is used as base. Estimate from Sask Learning

Total Estimated 2003 Expenditures from Sask Learning

Commercial/Industrial/GIL is estimated at $256M in 2005 before tax relief

Table 25 – Estimated Provincial Impact of Option: $100M in 2005, $50M per year 2006 to 2009

	2003	2004	2005	2006	2007	2008	2009
TOTAL ESTIMATED EXPENDITURES (millions)	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**
Provincial Grant	510	510	510	610	660	710	760
Commercial and GIL			220	202	183	165	147
General Revenue Replacing Property Tax			50				
General Revenue Replacing Property Tax Over Time			50	50	50	50	50
TOTAL PROVINCIAL SHARE	**510**	**510**	**830**	**862**	**893**	**925**	**957**
Local Revenue	780	780	460	428	397	365	333
TOTAL ESTIMATED REVENUE	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**	**1,290**
Total Local Revenue Comprised of:							
Local Revenue from Other	75	75	75	75	75	75	75
Local Property Tax	705	705	385	353	322	290	258
Expenditures Net of Other *	1,215	1,215	1,215	1,215	1,215	1,215	1,215
Percentages based on Expenditures Net of Other							
% Provincial	42%	42%	68%	71%	74%	76%	79%
% Local Property Tax	58%	58%	32%	29%	27%	24%	21%
% Property Tax	58%	58%	50%	46%	42%	37%	33%

** To be consistent with previous display of information, we removed tuition, supplementary and other from expenditures*
2007-2008 expenditure growth is actually negative based on enrolment decline & CPI. Flat-lined at 0%
Local Revenue from Other expected to increase at the same rate as expenditures - flat-lined at 0%
Local Revenue from Other is tuition, supplementary services, and other
Local Revenue from Other 2003 is used as base. Estimate from Sask Learning
Total Estimated 2003 Expenditures from Sask Learning
Commercial/Industrial/GIL is estimated at $256M in 2005 before tax relief

Table 26 – Assessment per Student Before and After Pooling of Commercial and Grant in Lieu (GIL) Properties

School Division	Assessment per Student Before	School Division	Assessment per Student After
Big Butte RCSSD 39	4,358,656	Estlin SD 107	1,672,158
Estlin SD 107	2,469,018	Wilcox SD 105	731,966
Wilcox SD 105	832,272	Big Butte RCSSD 39	556,409
Grand Coulee SD 110	726,536	Eston-Elrose SD 33	483,773
St. Alphonse RCSSD 2	675,164	Golden Plains SD 124	358,368
Weyburn Central SD 73	612,127	Radville SD 67	356,907
Leader SD 24	586,248	Prairie View SD 74	351,959
Gull [illegible] SD 76	585,616	Rosetown SD 43	335,000
Est[illegible]ural SD 62	583,710	Thunder Creek SD 78	323,530
Est[illegible]Elrose SD 33	532,319	Gray SD 101	316,358
Thunder Creek SD 78	515,389	Leader SD 24	300,665
Rosetown SD 43	515,060	Grand Coulee SD 110	292,842
Radville SD 67	511,964	Eastend SD 8	292,595
Maple Creek SD 17	456,950	Red Coat Trail SD No. 69	259,513
Landswest SD 123	456,124	Landswest SD 123	258,307
Prairie West SD 75	415,731	Gull Lake SD 76	255,690
Eastend SD 8	412,851	Davidson SD 31	254,598
Battle River SD 60	408,516	Shaunavon SD 71	248,612
Lanigan SD 40	406,271	Estevan Rural SD 62	246,206
Prairie View SD 74	403,158	Wakaw SD 48	242,417
Herbert SD 79	402,328	Herbert SD 79	240,452
Souris Moose Mountain SD 122	396,073	Sask Central SD No 121	237,005
Golden Plains SD 124	385,326	Weyburn Central SD 73	236,216
Broadview SD 18	379,207	Turtleford SD 65	235,384
Gray SD 101	374,656	Prairie West SD 75	234,876
Shaunavon SD 71	363,082	Paynton SD 102	231,936
Davidson SD 31	359,423	Outlook SD 32	225,213
Kindersley SD 34	353,219	Biggar SD 50	211,210
Turtleford SD 65	329,665	Kindersley SD 34	209,494
Regina (East) SD 77	323,011	Saskatoon (East) SD 41	205,214
Outlook SD 32	308,246	Wilcox St. Augustine RCSSD 91	203,764
Red Coat Trail SD No. 69	306,983	Indian Head SD 19	201,735
Borderland SD 68	304,470	St. Alphonse RCSSD 2	201,685
Moosomin SD 9	294,459	Borderland SD 68	198,331
Saskatoon (East) SD 41	291,983	Tiger Lily SD 54	197,715
Buffalo Plains SD 21	289,247	Battle River SD 60	197,479
Scenic Valley SD 117	284,078	Deer Park SD 26	195,590
Sask Central SD No 121	282,505	Shamrock SD 38	194,677
Pense SD 98	280,391	Maple Creek SD 17	194,007
Biggar SD 50	275,409	Northern Lakes SD 64	192,213
Paynton SD 102	264,574	Souris Moose Mountain SD 122	188,153
Wakaw SD 48	255,903	Kamsack SD 35	186,386
Saskatoon (West) SD 42	239,481	Wadena SD 46	185,323
Wilcox St. Augustine RCSSD 91	238,210	Scenic Valley SD 117	184,580
Indian Head SD 19	237,622	Lanigan SD 40	183,400
Potashville SD 80	236,469	Humboldt RCSSD 15	182,973
Deer Park SD 26	236,255	Crystal Lakes SD 120	181,241
Swift Current SD 94	226,386	Cupar SD 28	180,490
Humboldt RCSSD 15	226,092	Tisdale SD 53	179,749

Continued

Table 26 – Assessment per Student Before and After Pooling of Commercial and Grant in Lieu (GIL) Properties Continued

School Division	Assessment per Student Before	School Division	Assessment per Student After
Shamrock SD 38	225,475	Humboldt Rural SD 47	176,231
Tiger Lily SD 54	222,008	Broadview SD 18	172,442
Saskatoon SD 13	221,368	Buffalo Plains SD 21	171,637
Tisdale SD 53	221,237	Regina (East) SD 77	170,605
Northern Lakes SD 64	214,993	Saskatoon (West) SD 42	166,629
Kamsack SD 35	214,392	Pense SD 98	164,543
Wadena SD 46	211,229	Saskatoon SD 13	163,639
Crystal Lakes SD 120	210,022	Battlefords SD 118	163,511
Cupar SD 28	205,598	Yorkdale SD 36	157,788
Yorkton SD 93	205,383	Swift Current SD 94	150,053
Battlefords SD 118	201,543	Moosomin SD 9	137,337
Humboldt Rural SD 47	201,351	Potashville SD 80	133,145
Lloydminster SD 99	196,497	Parkland SD 63	130,282
Hudson Bay SD 52	193,766	Regina SD 4	128,397
Regina SD 4	191,833	Nipawin SD 61	128,225
Yorkdale SD 36	184,735	Estevan RCSSD 27	127,054
Estevan RCSSD 27	184,219	Saskatchewan Valley SD 49	125,886
Regina RCSSD 81	175,674	Hudson Bay SD 52	122,580
Weyburn SD 97	175,006	Yorkton SD 93	121,629
Estevan SD 95	167,683	Saskatchewan Rivers SD 119	117,178
Weyburn RCSSD 84	165,158	Regina RCSSD 81	115,005
Creighton SD 111	160,905	Estevan SD 95	114,326
Moose Jaw SD 1	157,480	St. Paul's RCSSD 20	111,474
Saskatchewan Rivers SD 119	155,610	Swift Current RCSSD 11	108,688
St. Paul's RCSSD 20	154,942	Weyburn SD 97	108,555
Nipawin SD 61	152,735	Weyburn RCSSD 84	107,930
Parkland SD 63	149,199	Lloydminster SD 99	105,262
Melfort SD 100	145,230	Melfort SD 100	105,094
Meadow Lake SD 66	145,128	Humboldt SD 104	103,985
Swift Current RCSSD 11	143,820	Christ the King RCSSD 83	100,093
Humboldt SD 104	140,362	Englefeld Protestant Separate	98,844
Saskatchewan Valley SD 49	140,114	Moose Jaw SD 1	98,471
Christ the King RCSSD 83	136,321	Melville SD 108	96,523
Melville SD 108	126,850	Spiritwood RCSSD 82	94,737
Spiritwood RCSSD 82	125,786	Meadow Lake SD 66	94,684
Moose Jaw RCSSD 22	109,945	Creighton SD 111	75,640
Prince Albert RCSSD 6	106,955	Yorkton RCSSD 86	72,806
Englefeld Protestant Separate	105,311	Prince Albert RCSSD 6	71,342
Yorkton RCSSD 86	105,059	Moose Jaw RCSSD 22	70,335
St. Gabriel's RCSSD 23	99,879	St. Henry's RCSSD 5	67,181
Lloydminster RCSSD 89	89,778	St. Olivier RCSSD 12	59,116
St. Henry's RCSSD 5	84,143	North West RCSSD 16	47,758
Northern Lights SD 113	80,236	Lloydminster RCSSD 89	44,230
St. Olivier RCSSD 12	73,107	St. Gabriel's RCSSD 23	42,259
North West RCSSD 16	71,215	Northern Lights SD 113	36,360
Ile a la Crosse S D 112	26,458	Ile a la Crosse S D 112	23,824

Table 27 Summary of the Impact of the Options

Option	Estimated General Revenue Amount	Estimated Reduction in Education Property Tax	Estimated Provincial Share compared to School Board Share	Estimated General Revenue Contribution to Total Property Tax Contribution
Increase PST 1% point	$133M	20%	54:46	54:46
Increase PST 1% point and expand the base	$200M	30%	60:40	60:40
Increase PST 1% point, expand the base and dedicate a portion of revenue growth or expenditure restraint	$300M	43%	70:30	70:30
Increase PST 1% point, expand the base, dedicate a portion of growth or restraint and implement provincial mill rate on commercial & GIL properties	$300M	43%	80:20	70:30

Appendix B – Saskatchewan school division mill rates, 2003

Estlin SD 107	9.00
Big Butte RCSSD 39	12.00
Lloydminster SD 99	12.75
Lloydminster RCSSD 89	12.75
Wilcox SD 105	13.00
Weyburn Central SD 73	15.45
Eston-Elrose SD 33	15.50
Grand Coulee SD 110	15.50
Estevan Rural SD 62	16.00
Ile A La Crosse SD 112	16.00
Rosetown SD 43	16.02
Battle River SD 60	17.00
Leader SD 24	17.00
Englefeld SD 132	17.40
St. Alphonse RCSSD 2	17.40
Northern Lights SD 113	17.40
Tisdale SD 53	17.72
Maple Creek SD 17	17.80
Nipawin SD 61	17.90
Deer Park SD 26	18.00
Landswest 123	18.00
Melfort SD 100	18.04
Gull Lake SD 76	18.19
Turtleford SD 65	18.20
St. Paul's RCSSD 20	18.22
Saskatoon SD 13	18.22
St. Olivier RCSSD 12	18.25
Eastend SD 8	18.50
Northern Lakes SD 64	18.50
Gray SD 101	18.50
Paynton SD 102	18.50
Spiritwood RCSSD 82	18.50
Saskatchewan Rivers 119	18.50
Weyburn RCSSD 84	18.50
Creighton SD 111	18.50
Biggar SD 50	18.60
Kindersley SD 34	18.70
Borderland SD 68	18.75
Kamsack SD 35	18.80
Meadow Lake SD 66	19.00
Radville SD 67	19.00
Red Coat Trail SD 69	19.00
Thunder Creek SD 78	19.00
Pense SD 98	19.00
Buffalo Plains SD 21	19.10
Sask Valley SD 49	19.19
Battlefords SD 118	19.25
Yorkton SD 93	19.25
Yorkton RCSSD 86	19.25
Potashville SD 80	19.30
Moose Jaw SD 1	19.30
Davidson SD 31	19.35
Tiger Lily SD 54	19.36
Indian Head SD 19	19.40
Prince Albert RCSSD 6	19.42
Prairie View SD 74	19.50
Sask Central 121	19.50
Northwest RCSSD 116	19.50
Humboldt Rural SD 47	19.60
Regina RCSSD 81	19.72
Regina SD 4	19.72
Shamrock SD 38	19.76
Wadena SD 46	19.76
Saskatoon (East) SD 41	19.81
Parkland SD 63	19.90
Crystal Lakes 120	20.00
Golden Plains 124	20.00
Souris Moose Mountain 122	20.00
St. Gabriel's RCSSD 23	20.00
Melville SD 108	20.00
Weyburn SD 97	20.00
St. Henry's RCSSD 5	20.00
Wakaw SD 48	20.30
Moose Jaw RCSSD 22	20.30
Scenic Valley SD 117	20.50
Hudson Bay SD 52	20.60
Outlook SD 32	20.70
Broadview SD 18	20.75
Lanigan SD 40	20.96
Prairie West SD 75	21.00
Regina (East) SD 77	21.00
Yorkdale SD 36	21.00
Humboldt RCSSD 15	21.00
Estevan SD 95	21.00
Estevan RCSSD 27	21.00
Moosomin SD 9	21.20
Swift Current SD 94	21.25
Humboldt SD 104	21.45
Saskatoon (West) SD 42	21.50
Christ The King RCSSD 83	22.00
Shaunavon SD 71	22.55
Swift Current RCSSD 11	22.75
Herbert SD 79	23.35
Cupar SD 28	23.80

Average Town, Village (15)*	**17.43**
Average City Public (10)*	**18.93**
Average Regina/Saskatoon (4)*	**18.97**
Average Rural (53)*	**19.31**
Average North (3)*	**17.30**
Average City Separate (9)*	**19.27**
Provincial Weighted Average	**19.10**

*Averages Were Calculated Using A Simple Average

Appendix C – Enrolment by Saskatchewan school division, September 2002

Division Name	2002 Actual Student FTE
Big Butte RCSSD 39	2
Estlin SD 107	5
St. Alphonse RCSSD 2	18
Wilcox SD 105	24
Wilcox St. Augustine RCSSD 91	28
Gray SD 101	31
Paynton SD 102	41
Grand Coulee SD 110	70
Christ the King RCSSD 83	81
Spiritwood RCSSD 82	106
St. Olivier RCSSD 12	113
Englefeld Protestant Separate	129
Pense SD 98	158
St. Gabriel's RCSSD 23	175
St. Henry's RCSSD 5	276
Radville SD 67	325
Humboldt SD 104	328
Melville SD 108	402
Creighton SD 111	494
Gull Lake SD 76	501
Ile a la Crosse S D 112	510
Lloydminster RCSSD 89	526
Leader SD 24	529
Weyburn RCSSD 84	534
Eastend SD 8	541
Kamsack SD 35	543
Swift Current RCSSD 11	552
Deer Park SD 26	620
Prairie View SD 74	622
Estevan RCSSD 27	625
Golden Plains SD 124	646
Davidson SD 31	706
Humboldt RCSSD 15	710
Shaunavon SD 71	722
Weyburn Central SD 73	728
Eston-Elrose SD 33	733
Regina (East) SD 77	736
Herbert SD 79	748
Borderland SD 68	762
Northern Lakes SD 64	778
Broadview SD 18	781
Lanigan SD 40	798
Biggar SD 50	799
Wakaw SD 48	849
Scenic Valley SD 117	854
Cupar SD 28	867
Red Coat Trail SD No. 69	909
Estevan Rural SD 62	926
Shamrock SD 38	931
Melfort SD 100	933
Hudson Bay SD 52	964
Turtleford SD 65	971
Maple Creek SD 17	981
Tiger Lily SD 54	1,014
Humboldt Rural SD 47	1,023
Outlook SD 32	1,037
Moosomin SD 9	1,069
Rosetown SD 43	1,080
Lloydminster SD 99	1,091
Prairie West SD 75	1,093
Thunder Creek SD 78	1,105
Weyburn SD 97	1,110
Yorkdale SD 36	1,122
Wadena SD 46	1,228
Tisdale SD 53	1,246
Yorkton RCSSD 86	1,298
Potashville SD 80	1,305
Crystal Lakes SD 120	1,305
Indian Head SD 19	1,348
Estevan SD 95	1,363
Parkland SD 63	1,368
Battle River SD 60	1,473
Moose Jaw RCSSD 22	1,490
Yorkton SD 93	1,527
Kindersley SD 34	1,614
Sask Central SD No 121	1,701
Swift Current SD 94	1,829
Saskatoon (East) SD 41	1,890
Nipawin SD 61	1,906
Landswest SD 123	2,010
North West RCSSD 16	2,018
Souris Moose Mountain SD 122	2,130
Meadow Lake SD 66	2,350
Saskatoon (West) SD 42	2,447
Battlefords SD 118	2,704
Prince Albert RCSSD 6	2,704
Buffalo Plains SD 21	3,309
Moose Jaw SD 1	4,033
Saskatchewan Valley SD 49	4,413
Northern Lights SD 113	4,467
Saskatchewan Rivers SD 119	7,870
Regina RCSSD 81	10,112
St. Paul's RCSSD 20	14,626
Regina SD 4	20,229
Saskatoon SD 13	20,900

Saskatchewan historical enrolments and future projectic
(1971-72 to 2012-13)

1971-72	243,047
1972-73	233,879
1973-74	220,340
1974-75	218,954
1975-76	217,084
1976-77	213,776
1977-78	210,556
1978-79	205,571
1979-80	201,735
1980-81	203,573
1981-82	200,385
1982-83	200,516
1983-84	200,251
1984-85	200,998
1985-86	201,888
1986-87	201,711
1987-88	203,250
1988-89	202,447
1989-90	200,276
1990-91	198,916
1991-92	198,412
1992-93	196,235
1993-94	195,770
1994-95	195,279
1995-96	194,602
1996-97	193,875
1997-98	192,446
1998-99	190,673
1999-00	188,594
2000-01	184,494
2001-02	181,101
2002-03	177,575
2003-04	174,212
2004-05	171,032
2005-06	167,534
2006-07	164,127
2007-08	160,487
2008-09	156,835
2009-10	154,024
2010-11	151,295
2011-12	148,876
2012-13	146,837

Note: Forecasted numbers are in the shaded area

Source: Saskatchewan Learning

Appendix E – Number of school boards per province/territory, September 25, 2003

Province/Territory	Number of School Boards
BC	60
AB	62
SK	96
MB	39
ON	72
QC	72
NS	7 (regional school boards)
NB	14 districts
PEI	3
NFLD	12
Yukon	1
NWT	8
Nunavet	3

Source: Saskatchewan Learning

Appendix F – Consultations with individuals and groups

We would like to thank all those who met with the Commission and contributed their thoughts on the future of our education system.

- Agriculture Producers Association of Saskatchewan (APAS)
- Association of Regina Realtors Inc.
- Battleford School Division No. 118
- Canadian Federation of Independent Business (CFIB)
- Canadian Association of Petroleum Producers
- Canadian Tax Payers Association
- City of Moose Jaw
- CUPE Education Workers Steering Committee
- Conseil scolaire fransaskois
- Estevan Comprehensive High School Board
- Estevan Rural School Division No. 62
- Federation of Saskatchewan Indian Nations
- Hildebrand, Richard, Tisdale
- Hult, Victor – Waseca
- Ile a la Crosse SD No. 12
- LandsWest School Division No. 123
- League of Educational Administrators, Directors and Superintendents (LEADS)
- Lloydminister Public School Division No. 99
- Moose Jaw Roman Catholic Separate School Division No. 22
- Moose Jaw School Division No. 1
- North Saskatoon Business Association
- Outlook School Division No. 32
- Pankiew Jim, Saskatoon
- Prairie West School Division No. 75
- Prince Albert Roman Catholic Separate School Division No. 6
- Provincial Association of Resort Communities of Saskatchewan (PARCS)
- Provincial Chamber of Commerce
- Qu'Appelle Valley Joint Board
- Regional Directors of Education
- Region 4 Directors of Education
- Regina District – Chamber of Commerce
- Regina Roman Catholic Separate School Division No. 81
- Regina School Division No. 4
- Resort Village of Candle Lake
- Rosetown School Division No. 43
- Rural Municipality of Baildon
- Rural Municipality of Barrier Valley
- Rural Municipality of Blaine Lake No. 434
- Rural Municipality of Corman Park No. 344
- Rural Municipality of Lakeland No. 521
- Rural Municipality of LongLaketon No. 219
- Rural Municipality of Mervin No 499
- Rural Municipality of Prince Albert No. 461
- Rural Municipality of Scott No. 98
- Rural Municipality Surprise Valley No. 9
- Saskatchewan Assessment Management Agency (SAMA)
- Saskatchewan Association of Rural Municipalities (SARM)
- Saskatchewan Association of School Business Officials (SASBO)
- Saskatchewan Chamber Commerce
- Saskatchewan Home Builders Association (SHBA)
- Saskatchewan Historical High Schools
- Saskatchewan Library Teachers Association
- Saskatchewan Real Estate Association (SREA)
- Saskatchewan Rivers School Division No. 119
- Saskatchewan School Trustees Association
- Saskatchewan School Trustees Association, Catholic School Trutees
- Saskatchewan Teachers Federation
- Saskatchewan Urban Municipalities Association
- Saskatchewan Valley School Division No. 49
- Saskatoon City Council
- Saskatoon (West) School Division No. 42
- Saskatoon Catholic Schools
- Saskatoon & District – Chamber of Commerce
- Saskatoon North Communities Association
- Saskatoon School Division No. 13
- Saskatoon West School Division No. 42
- School Plus Steering Committee
- St. Paul's Roman Catholic Separate School Division No. 20
- Thunder Creek School Division No. 78
- Tisdale School Division No. 53
- Turtleford School Division No. 65
- Swift Current School Division No. 94
- University of Saskatchewan – Dr. Murray Scharf & Dr. Vivian Hajnal
- Wakaw School Division No. 48
- Warman Town Council
- West Central Municipal Government

Appendix G – Submissions

The Commission on Financing K-12 Education would like to thank all those who made submissions and contributed to our deliberations.

- Association of Regina Realtors
- Barbier, John, Vanguard
- Battleford S.D. No. 118
- Battle River S.D. No. 60
- Bradley, Joanne – Saskatoon
- Canadian Association of Petroleum Producers
- Canadian Federation of Independent Business (CFIB)
- Canadian Taxpayers Federation
- Catholic Section – SSTA
- City of Estevan
- City of Humboldt
- City of Melfort
- City of Moose Jaw
- City of Saskatoon
- Conseil scolaire fransaskois
- Corneil, Joan
- Cowleson, James M. – Regina
- CUPE Education Workers Steering Committee
- Eastend S.D. No. 8
- Ermal Mr. & Mrs. William, Cupar
- Estevan Public School Board
- Estevan Real Estate Board, Dennis Moe
- Estevan Rural S.D. No 62
- Ewen, Ed C., Humboldt
- Fillmore Central Local School Board
- Fraser, Robert
- Grand Coulee S.D. No. 110
- Gray, Charlene – Bankend
- Griffath, Gil
- Harung, Judy – Saskatoon
- Hildred, Richard – Saskatoon
- Hildebrand, T. Richard – Tisdale
- Holy Trinity RCSSD No. 22
- Hult, Victor – Waseca
- Humboldt Rural S.D. No. 47
- Humboldt S.D. No. 104
- Jansen, Delwyn J. – LeRoy
- Kindersley S.D. 34
- LandsWest S.D. No. 123
- League of Educational Administrators, Directors and Superintendents (LEADS)
- Lloydminister Public S.D. 99
- Lueke, Dennis
- Maple Creek S.D. No. 17
- Melfort S.D. No. 100
- Migowsky, Duane G. – Maple Creek
- Millar, Brian, Carnduff
- Mills Lis & Mary Dee – Saskatoon
- Moose Jaw Real Estate Board
- Moose Jaw S.D. No. 1
- North Saskatoon Business Association
- Outlook S.D. No. 32
- Provincial Association of Resort Communities of Saskatchewan (PARCS)
- Parker Shirley, Gravelbourg
- Prairie West S.D. No. 75
- Prince Albert Roman Catholic Separate S.D. No. 6
- Qu'Appelle Valley Joint Board
- Radville S.D. No. 67
- Red Coat Trail S.D. No.69
- Regina Catholic School Teachers' Association
- Regina & District Chamber of Commerce
- Regina RCSSD No. 81
- Regina S.D. No 4
- Regnitter, Gerald – Christopher Lake
- Resort Village of Candle Lake
- Reynolds, Millie – Saskatoon
- Richardson, Hildred – Saskatoon
- R.M of Arlington No. 79
- R.M. of Barrier Valley No. 397
- R.M. of Big Quill No. 308
- R.M. of Bjorkdale No. 426
- R.M. of Blucher No. 343
- R.M. of Corman Park No. 344
- R.M. of Cupar No. 218
- R.M. of Eagle Creek No. 376
- R.M. of Golden West No. 95
- R.M. of Gull Lake No. 139
- R.M of Hart Butte No 11
- R.M. of Hilldale No. 440
- R.M of Hoodoo No. 401
- R.M. of Lakeland No. 521
- R.M. of Loreburn No. 254
- R.M. of Lost River No. 313
- R.M. of Maple Creek No. 111
- R.M. of Mervin No. 499
- R.M. of Milden No. 286
- R.M. of Miry Creek No. 229
- R.M. of Moose Range No. 486
- R.M. of Moosomin No. 121
- R.M. of Mount Pleasant No. 2
- R.M. of North Battleford No. 437
- R.M. of Prince Albert No. 461
- R.M. of Shellbrook No. 493
- R.M. of White Valley No. 49
- R.M. of Wolseley No. 155

- R.M. of White Valley No 4
- Rosetown S.D. No. 43
- Ross, Shaun – Major
- St. Paul's RCSSD No. 20
- Saskatchewan Assessment Management Agency (SAMA)
- Saskatchewan Association of Rural Municipality (SARM)
- Saskatchewan Association of School Business Officials (SASBO)
- Saskatchewan Central S.D. No. 121
- Saskatchewan Chamber of Commerce
- Saskatchewan Historical High Schools
- Saskatchewan Home Builders' Association
- Saskatchewan Real Estate Association (SREA)
- Saskatchewan Rivers S.D. No. 119
- Saskatchewan School Trustees Association (SSTA)
- Saskatchewan School Trustees Association (SSTA)-Catholic Section
- Saskatchewan School Trustees Association (SSTA) – Urban Public Boards Caucus
- Saskatchewan Teachers Federation (STF)
- Saskatchewan Urban Municipalities Association (SUMA)
- Saskatchewan Valley S.D. 49
- Saskatoon Diocese – Catholic Pastoral Centre
- Saskatoon & District Chamber of Commerce
- Saskatoon (East) S.D. 41
- Saskatoon (West) S.D. No. 42
- Saskatoon North Communities Association
- Saskatoon Preschool Foundation
- Saskatoon S.D. No. 13
- Sask Central S.D. No. 121
- Schaab Vern, Unity
- School$^{\text{PLUS}}$ Steering Committee
- Shauf, Dale
- Shaunavon S.D. No. 71
- Simmermon, Lisa & Johnson, Brian, Regina
- Souris Moose Mountain S.D. No.122
- Steele, David – Moose Jaw
- Sutter, Fred J – Saskatoon
- Swift Current S.D. No. 94
- Taylor, Bob
- Thunder Creek S.D. 78
- Tiger Lily S.D. No. 54
- Tisdale S.D. No. 53
- Toupin, Harley – Regina
- Town of Carlyle
- Town of Corman Park
- Town of Eastend
- Town of Eston
- Town of Hudson Bay
- Town of Kindersley
- Town of Kyle
- Town of Shellbrook
- Town of Wood Mountain
- Turgen, Ernest – Storthoaks
- Turtleford S.D. No. 65
- University of Regina
- Village of Candle Lake
- Village of North Portal
- Village of Wood Mountain
- Wadena S.D. No. 46
- Wakaw S.D. No 48
- Watson, Doug – Yellow Grass
- West Central Municipal Government
- Weyburn School Board
- Weyburn S.D. No. 97
- Weyburn Central S.D. No. 73
- Whitaker, Christine – Edgeley
- Whitter G. A. – Saskatoon
- Yorkton Catholic S.D. 86

The following is an excerpt from the document Public Attitudes Study Final Report prepared by Sigma Analytics on behalf of the Commission on Financing K-12 Education.

Introduction

Objective

The objective of this survey was to determine the views of Saskatchewan residents on issues related to the use of property tax for the support of kindergarten to Grade 12 education. It was commissioned from Sigma on the basis of tenders called by the Commission on Financing Kindergarten to Grade 12 Education.

Methodology

The questionnaire was finalized in close consultation with the client. Several of the substantive queries include multiple scales. All scales are odd-numbered with five choice options. Seven demographic queries were used. Responses were weighted by gender in order to accurately represent the correct population proportions.

A total of 1056 interviews were conducted on weekdays between September 17th and September 26th, 2003, and on Saturday September 27th. Interviews were conducted weekdays from 5:00 p.m. to 9:00 p.m. and Saturday from 10:00 a.m. to 5:00 p.m.

The results can be expected to be accurate to within plus or minus 3.0 percentage points, 19 times out of 20.

Cautions

Interpreting the results in this report should be done with the following cautionary considerations in mind:

- Sample surveys provide estimates of the prevalence of the measured factors in the total population from which the sample is drawn. The estimates are statistically reliable within the ranges indicated, at the 95% level of confidence. This means that the actual prevalence of the factor could be greater or lesser than the estimate, by the amount of the margin of error. It also means that 5% of the time, the estimate can be expected to differ from reality by more than the margin of error. Results from sample surveys should therefore be treated as contributing to knowledge, but not as defining it precisely.
- While polling results for the entire sample are statistically reliable within the range indicated, results for sub-sets of the sample will have a larger margin of error because they are based on smaller numbers. They should be treated with more caution.
- Polls are "snapshot" approximations of reality. Subject to the foregoing considerations, they can be expected to reflect reality validly, within the indicated ranges, at the time they are conducted. Opinions change. It is important to bear in mind that a single poll cannot describe a trend.
- **Indicators from the sample can be projected to estimate the prevalence of the measured factor in the total population from which the sample was drawn. They cannot be interpreted as describing any other population.**
- **Tables showing various cross-tabulations appear after the commentary on queries. Data displayed is as collected. This data is displayed for context. Differences between numbers may or may not be statistically significant.**

Highlights

- Schools rate second only to health care in importance among the five public expenditures that were tested. Schools received a very strong mean importance rating of 4.5. Schools were also chosen second on a list of priorities, with 24.3% citing them compared to 53.3% citing health care.

- By a ratio of 4:1, respondents feel that schools are a social responsibility and everyone should pay toward the cost.
- A 56.8% majority indicated support for a dedicated tax to help fund schools. Those disagreeing constituted 25.7% of respondents.
- The use of property taxes for school purposes is supported by 52.4%, with 32.4% dissenting.
- Six out of 10 respondents agreed that the property tax system works so that people with similar properties pay similar amounts.
- A sizeable majority of 70.9% felt the distribution of funding for school costs should be changed. Of this group, nearly all (97.8%) indicated the province should be paying more.
- Nearly one-half (48.4%) of respondents felt that if there were a need to raise a tax to pay a greater portion of school costs at the provincial level, they would increase sales tax.
- A plurality of respondents, 41.8% overall, support the idea of a province-wide property tax collected by the provincial government and redistributed to school boards. A significant minority of 30.6% disagreed.
- While 60% agreed there should be a local tax option for school boards, 79% felt there should be a limit on school board spending.
- On the whole, satisfaction with the existing situation is lower, and support for change is higher, as community size declines and as age rises. Males and property owners are often less satisfied and more open to change than females and persons who do not own property.

Commissioner, Ray Boughen

Ray Boughen has a solid background in education as well as municipal governance and administration. He was mayor of Moose Jaw from 1994 to 2000, and a Vice-President of the Saskatchewan Urban Municipalities Association from 1998 to 2000.

In his 35 years in the field of education, Ray has served as a teacher, vice-principal, principal and director of education. He is currently Director of Education for SIAST Campuses. His post-secondary education includes a Masters of Science majoring in Counseling Psychology and Educational Administration.

Since 1993, Ray has run his own consulting and counseling firm. One of his first contracts was with Temple Gardens Mineral Spa Inc., where he served as Executive Director.

Ray and his wife Sandy are long-time Moose Jaw residents. Ray is active in the community. He is a former charter member of the Wakamow Rotary Club and a current member of the Moose Jaw Rotary. He spent many years as a coach and official in minor sports and was chairperson of the 1996 Saskatchewan Summer Games. Ray currently serves as Saskatchewan Chairman of the Canadian Forces Liaison Council and a member of the Saskatchewan Air Show Board of Directors. He was recently appointed Chairman of the Moose Jaw committee for the 2005 Canada Games.

Team Lead and Executive Director: Ken Horsman

Ken came to the Commission after a long and successful 25-year career with the provincial government. Those 25 years were spent in the Department of Education, later known as the Department of Learning. Upon his retirement early in 2003, Ken was an Associate Deputy Minister.

Ken's educational background includes degrees in Mathematics and Education from the University of Saskatchewan and a Master's degree from the University of Regina. Earlier in his career, he worked for ten years with the Saskatoon Catholic Board of Education and the Regina Public Board of Education.

Ken has a farm background and continues to have an interest in the family farm in the Fort Qu'Appelle area.

Policy Analyst, Frances Bast

Frances was seconded from Saskatchewan Learning's school finance branch. She is a Certified Management Accountant and holds a master's degree in business administration. She has been with the provincial government since 1992. Prior to that, she worked with the federal government for 11 years.

Frances was raised on a farm near Davin, Saskatchewan. She continues to be involved in agriculture, and farms just outside of Regina.

Policy Analyst, Raelynn Douglas

Raelynn was also seconded from a government department to lend assistance to the Commission. After completing a degree in Economics at the University of Saskatchewan, she began her career with Saskatchewan Finance in 1990, working in the taxation and intergovernmental affairs branch. Raelynn has worked with many branches within the Department of Finance, primarily focusing on budget development and strategic planning.

Raelynn and her family reside in Regina but are very involved in a grain, oilseed and bison farm near McTaggart, Sask.

Communications Director, Kim Herperger

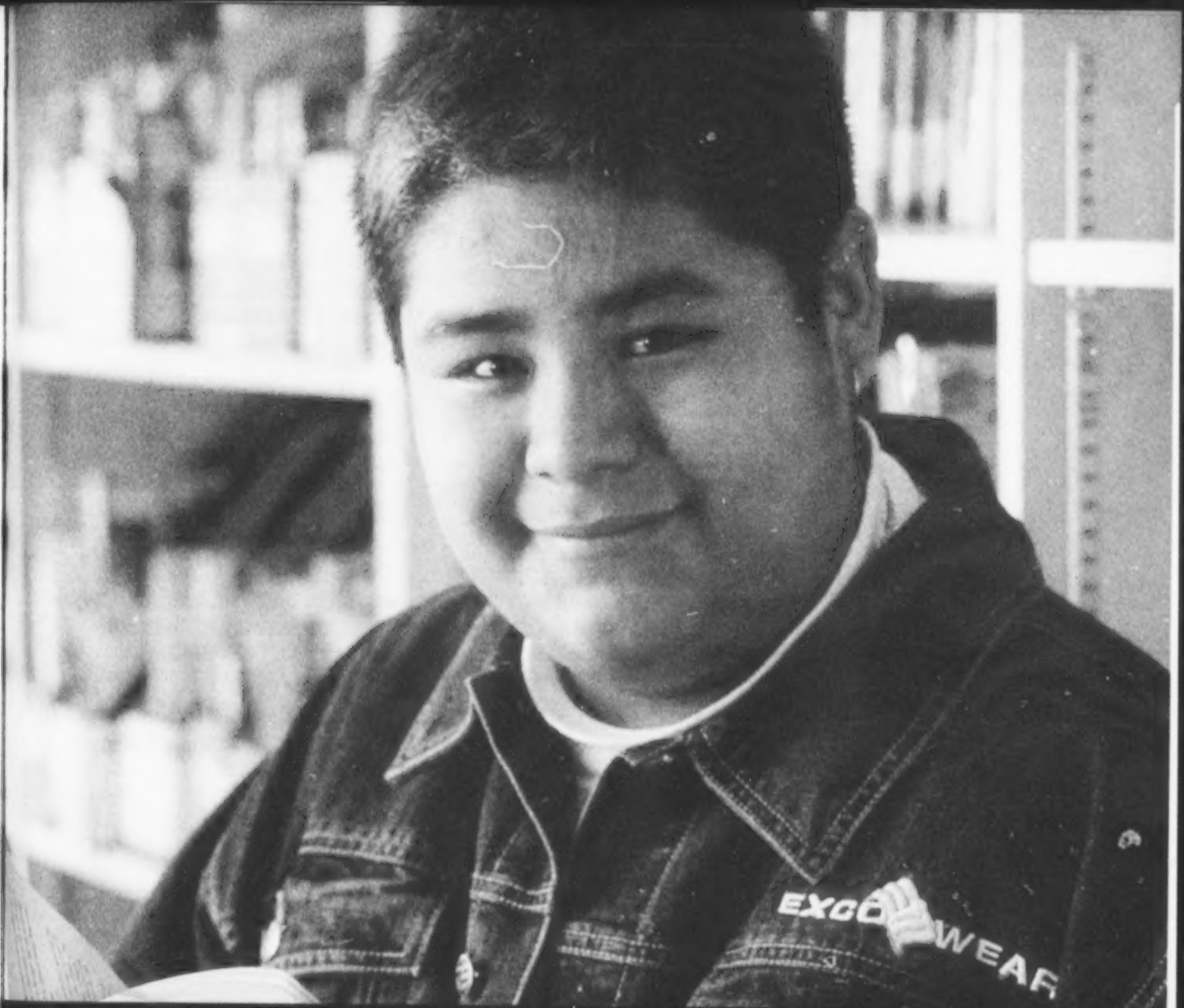
Kim has been a private communications consultant since January 2001. Prior to that time she spent 14 years in corporate communications with Credit Union Central of Saskatchewan. Kim's last six years at Central were spent managing a team of consultants that provided advice, tools and training to credit unions and co-operative organizations across Saskatchewan and Alberta.

Kim is active on the board of the Regina Chapter of the International Association of Business Communicators and holds a diploma in Communication Arts from Lethbridge, Alberta. Another Saskatchewan native, she was born and raised in Esterhazy.

Office Manager, Shannon Lindsay

Shannon joined the Commission on secondment in June 2003. At that time she was working with the Curriculum and Instruction Branch in the Instructional Resources Unit. Shannon's 15 years in provincial government include time with Energy & Mines as well as Saskatchewan Learning.

Shannon grew up in Regina and has spent most of her life in this province.



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